Karen Young
The Economic Statecraft of the Gulf Arab States

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The six oil-rich Persian Gulf monarchies have surpassed numerous development milestones. Their oil exports have funded hyper-modern cities and connected them to the world with enviable infrastructure. The same resource has produced citizens who are healthy, wealthy, and highly educated.

So, what's the next step in the evolution of a rentier autocracy? Karen Young's new book suggests it's to redirect their patronage-fueled development models outward, using oil rents to buy regional influence, particularly among the poorer states of the Middle East and Africa.

Young, a political scientist with Columbia University's Center on Global Energy Policy and the Middle East Institute, exposes these flows in foreign aid, loans, and investment. The book feels like a wiring diagram of connections between governments, banks, energy firms, and big engineering contractors. But it's a readable one, offering interesting anecdotes that drive understanding of these networks. Young's experience teaching in Sharjah and running courses for the US Department of State is evident in the clarity of the text.

The states and citizens of the Persian Gulf have long been known as outsized donors to charities and international humanitarian causes. On a per capita basis, four of the Gulf monarchies—Saudi Arabia, Qatar, Kuwait, and the United Arab Emirates—provide more development assistance than all but a few Northern European countries.[1]

Young's book, *The Economic Statecraft of the Gulf Arab States*, argues that the region's altruism in foreign aid has given way to pragmatism. Outflows remain generous and fluctuate alongside the oil price and geopolitical priorities. But the expectations have changed. Ruling elites expect more than gratitude from recipient states. They want more than political influence and diplomatic accommodation. They also want a solid return on investment.

Young leverages data to show GCC states are not just competing with and sometimes supplanting the United States and its allied multilateral lenders. They are also competing with—and sometimes cooperating with—China and its Belt and Road investment strategy. In their focus region of the Middle East and North Africa, Gulf regimes have outspent and created more jobs than has China, Young says (4). That includes a whopping $80 billion in Egypt since 2011.

1. OECD, "Official Development Assistance (ODA) in 2022, by other official providers (preliminary data). Organization for Economic Cooperation and Development, April 2023, https://public.flourish.studio/story/1882344/.

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Young details highly successful and sophisticated systems with something to prove, namely "how best to organize a state and economy" (10). Unsurprisingly, the financially and diplomatically savvy UAE is the leading source of funds. Saudi Arabia and Qatar round out the top three.

In the near term, the Gulf's foreign direct investment (FDI) flows are expected to bring returns, as mentioned. But the development assistance is also meant to shape the recipient political economies. Rather than prodding them to make overtures to democracy and human rights, as Western aid sometimes does, Gulf ruling elites want recipients to reciprocate with diplomatic support—and remain steadfast consumers of fossil fuels. Young suggests that the pressures applied on aid recipients includes preparing them as replacement markets for oil exports flowing to the OECD, where economic stagnation and climate action is eroding consumption. Demand for oil, refined fuels, and plastics has been tilting toward the developing world for decades and that trend is expected to hasten.

Ties with the United States have been fraught. The Gulf isn't just coping with declining US imports of its oil. It is also backfilling for American disengagement in the Middle East and Africa. Gulf diplomats and bankers are pushing intervention in a region where America is "pulling up the ladder" on security commitments and foreign aid (11).

The shale boom and climate pressure are adding to the US impetus to disengage. The shale boom created misconceptions on both sides. American pundits preaching "energy independence" somehow missed the fact that, despite shale, US gasoline prices were formed largely by decisions made in Riyadh and other petrostate capitals. And on the Gulf side there were worries that dwindling direct export ties to the US would mean a declining commitment to maintain the US security umbrella. Neither turned out to be accurate, at least not yet.

Young is among recent authors revealing updates to the Gulf social contract.[2] She fleshes out some of the changes she sees on the financial side: the state has become "facilitator" of citizen employment rather than direct provider of jobs. And the state assists by picking sectors and tweaking the regulatory environment so the chosen sectors grow and create citizens' jobs. Nothing huge, but noteworthy. Of course, itemizing the contents of the Gulf social contract is a speculative exercise, the contents of which are never certain to anyone.

2. To name a few: Jim Krane, *Energy Kingdoms: Oil and Political Survival in the Persian Gulf*, Center on Global Energy Policy Series (New York: Columbia University Press, 2019); Justin Gengler and Laurent A Lambert, "Renegotiating the Ruling Bargain: Selling Fiscal Reform in the GCC," *The Middle East Journal* 70, no. 2 (2016): 321–29; Steffen Hertog, "The End of the Old Social Contract in the Gulf-and What Could Replace It," *Middle East Centre Blog*, 2023; Steffen Hertog, "Redesigning the Distributional Bargain in the GCC" (BRISMES Annual Conference, World Scientific, 2012).

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Young also offers a fresh take on ruling family legitimacy. With oil markets increasingly volatile—and the outlook for oil less certain than ever—Young argues that rulers' legitimacy now hinges on ability to cope with swinging oil prices and sharp shifts in the global economy. Legitimacy is further stoked when development plans are "audacious" like those carved out in Dubai by Sheikh Rashid in the 1960s to the 1980s and Mohammed bin Rashid since then or those being pushed in Saudi Arabia by Mohammed bin Salman. Such plans are wielded as proof that the ruler is "brave" and therefore legitimate.

Of course, rationality should count for something. Young is understandably skeptical (28) about Saudi Arabia's so-called gigaprojects like the emerging city of Neom and its centerpiece building known as The Line—a 170-kilometer straight-line building for nine million residents. Here, too, foreign investment provides a clue. But in this case, it is the dearth of *inward* foreign direct investment to these Saudi projects that reveals bankers' pessimism about near-term opportunities for financial returns.

Unfortunately, the kingdom's failure to attract FDI for its gigaprojects is being felt beyond the kingdom. The unexpected need to self-fund Neom and other extravagant developments is said to be one of the reasons behind Saudi Arabia's newfound price-hawkishness within OPEC. In other words, if foreign investors won't cooperate, higher oil prices will be needed.[3]

The book's centerpiece is the interplay between the development finance approaches of the Gulf and China. There are synergies between these autocratic development powerhouses that go beyond their co-dependent relations within the oil market. These range from a focus on big infrastructure—ports in particular—and a desire to move into regions being vacated by Washington.

Chinese economic diplomacy, or "statecraft" as Young describes it, provides a "constant reminder of the power of alternative economic organization to the West" (35). Like China, the Gulf is a source of cash with fewer strings attached, at least in terms of interference in domestic politics and human rights. Gulf financing also tends toward quiet bilateral deals that take place behind closed doors, rather than that of China—or the US—which prefer publicized regional approaches.

China has proven better at promoting national contractors than the Gulf, although Riyadh-based Acwa Power's spate of recent power projects across nearly a dozen countries in the Middle East, Africa and Southeast Asia suggest this is changing.

3. Jim Krane, Kristian Coates Ulrichsen, and Mark Finley, "Should Abu Dhabi Quit OPEC? Reconsidering the UAE's Membership," Academic paper (Houston: Baker Institute for Public Policy, Rice University, June 1, 2023), https://www.bakerinstitute.org/research/should-abu-dhabi-quit-opec-reconsidering-uaes-membership.

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But synergies with China are also undercut by the deepening US-China cold war (31). The Gulf states find themselves literally stuck in the middle. They depend on Chinese imports of their oil. And they depend on the US security umbrella. Straddling the widening gap is proving tricky. It could get worse. Reports on the normalization talks between the US, Saudi Arabia, and Israel have cited Biden administration pressure on Riyadh to rein in the relationship with China and especially any prospect of pricing oil in renminbi.[4]

Young also digs into the targets of Gulf economic statecraft. The book contains case studies of flows to Egypt, Pakistan, Yemen, Ethiopia, Sudan, and Oman. Investment strategies in Africa are depicted as bets on the next growth market (48). Demographics and development milestones mean Africa has strong prospects as a market for both energy commodity cargoes and labor-intensive manufacturing.

It is Egypt that is the book's most dramatic case: a veritable aid battlefield, with Qatar delivering cash and natural gas cargoes to support the Muslim Brotherhood and its elected president Mohammad Morsi, while the UAE and Saudi Arabia did their best to support the regime of Morsi's overthrower, ʿAbd al-Fattah al-Sisi. The upheaval certainly had its benefits. The monarchies' battle for influence brought $80 billion in Gulf largesse to Cairo between 2011 and 2020 (49–50).

Famously, after the coup—and after receiving billions in Qatari aid—Egypt joined the blockade of Qatar. The Sisi government's main concession was to continue allowing Qatari LNG shipments through the Suez Canal—as long as the supercooled carriers didn't try to visit any Egyptian ports along the way (59).

The UAE and Saudi Arabia didn't just bankroll the Sisi regime. Egypt was "ground zero" for policy experimentation. The Gulf benefactors urged tough reforms including on energy subsidies as a test case for their own reforms that happened around the same time.[5] As the Sisi regime solidified after 2016, direct financial support morphed into FDI seeking profitable returns (59–60).

As predecessors also learned, aid packages sometimes exacerbate crises, rather than fixing them. Young's case studies of Yemen and Sudan show the high level of influence Gulf aid bought, which ultimately worsened already bleak governance and humanitarian crises.

Overall Young's book is an important treatise on a new form of competitive financial diplomacy that readers of international affairs need to understand.

4. Thomas L. Friedman, "Biden Is Weighing a Big Middle East Deal," *New York Times*, July 27, 2023, https://www.nytimes.com/2023/07/27/opinion/israel-saudi-arabia-biden.html.
5. Covered in detail in Krane, *Energy Kingdoms.*

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Economic Statecraft makes the case that the Gulf has emerged as a player in development finance alongside the US, the big multilaterals, and China. Whether that role can withstand a pronounced oil bust remains to be seen. But even if the flows are cyclical, Young has provided a useful service in documenting new uses for oil rents.

In a few areas, the book is over-optimistic, particularly regarding opportunities in non-fossil energy in the Gulf, and Gulf states' commitment to their own clean energy and climate goals. Young expects the region will make a "masterful push to dominate renewables and, at the same time, dominate what remains of the oil market" (140).

While the Gulf and the wider Middle East undoubtedly make ideal markets for renewable power—solar in particular—these low-margin businesses are never going to provide the sort of economic rents required to replace oil, let alone sustain the huge social welfare budgets of these absolute monarchies. Even among less profitable oil majors, renewables are unattractive.

Further, few of the clean energy goals promulgated by Gulf states have borne fruit. The main exception is Abu Dhabi, which did reach its 2009 goal of installing renewables equal to 7 percent of its power generating capacity by 2020.[6]

Elsewhere, credibility on these pronouncements is thin. For instance, the Saudi government set—and ignored—a series of absurdly ambitious goals. It did not pursue a 2012 announcement to build 23.9 GW of renewables by 2020, nor a 2018 memorandum of intent to build 150–200 GW of renewables by 2030; while a 2011 plan to build 16 nuclear power reactors within 20 years was also shelved.[7] As of mid-2022, Saudi Arabia reported a renewables installation of just 700 megawatts,[8] an amount that is 34 times smaller than the goal it set for 2020. These failures suggest the kingdom's 2030 goal of generating 50 percent of its power from renewables[9] is unattainable.

As Young rightly points out, however, there are few penalties to prevent autocracies like those in the Gulf from making U-turns on stated policy goals.

6. Jim Krane, "Pairing Coal with Solar: The UAE's Fragmented Electricity Policy," *Low Carbon Energy in the Middle East and North Africa* (Cham: Palgrave Macmillan, 2021), 57–91.
7. Jim Krane, "Net Zero Saudi Arabia: How Green Can the Oil Kingdom Get?," Working paper, EPRG Working Papers in Economics (Cambridge: Energy Policy Research Group, University of Cambridge, 2022), https://www.eprg.group.cam.ac.uk/wp-content/uploads/2022/10/2217-text.pdf.
8. Energy Institute, "Energy Institute Statistical Review of World Energy," Statistical database (London: Energy Institute, 2023), https://www.energyinst.org/statistical-review.
9. "SGI Target: Reducing Emissions," Saudi Green Initiative, 2021; https://www.greeninitiatives.gov.sa/about-sgi/sgi-targets/reducing-emissions/reduce-carbon-emissions/.

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If the gains from reneging outweigh the gains from staying the course, we should predict that they will renege.

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