

'Overcoming the gulf states' oil curse – Japan Times 30.11.20

How are the oil-rich countries of the Persian Gulf, usually called the GCC countries, coping with the current pandemic crisis and other growing global pressures? The common assumption tends to be that with their fabulous wealth from floating for decades on seas of oil and gas the emirates and kingdoms of the region will all get through and overcome all challenges.

But if that is what people think, then they should think again. In reality this is a time when almost everything is turning against these Arab states.

Their most precious export, that oil and gas — accounting for two thirds of total receipts — is losing market share and sagging in price. The current collapse in world energy demand has simply accelerated the trend downwards and sent oil markets into a swirl of extreme volatility. At one stage earlier in the year, the oil price actually went negative. Demand may recover a little, but so will supply from many sources outside OPEC, including the hundreds of nimble shale oil producers in the United States, whose recent peak reached 12 million barrels a day, almost an eighth of total world output, and they are ready to bounce back.

Then there are the big inroads that renewable energy sources are now making into both the oil and gas markets.

This presents the Gulf States with a double pincer. Just as demands for more public spending for social purposes are required by a restive population, so the revenues to meet them dwindle. And this is taking place as violence continues throughout the region, with terrorism, religious schisms and neighboring states threatening to suck them into war-torn chaos. Meanwhile, the threat of Iranian subversion remains ever-present and COVID-19, which has spared no state in the region, adds sharply to the tensions.

An illuminating forthcoming book, “Trials of Resilience” by Jarmo Kotilaine, sets out these dilemmas with stark clarity. And all this should certainly worry today’s big investors in the region, such as Japan, and the still reliant customers for Middle East oil — again such as Japan — very deeply.

Seeing all this coming, some wiser leaders in the Gulf States, reaching for a more secure future, have looked towards diversification away from hydrocarbon production and into other industries and services. Some progress toward that end has been made in the smaller emirates and in Saudi Arabia itself; but oil and gas remain defiantly center stage.

Other moves have included major infrastructure projects by the Gulf nations. No one can deny that such projects as the futurist new city being built at Naom on the Saudi coast — using entirely renewable power sources — or the brand new Omani port at Duqm, being built with Chinese support, in each case, point in the right direction. So, too, do massive projects for new nuclear power plants, water-desalination plants, universities, highways, airports and high speed trains, although, it must be said, they come amid continuing heavy investments in big new oil fields.

But real industrial diversification and a genuine end to oil dependence need much more. Economic growth and transformation in the modern era rests on innovation and the freedom of space in which new ideas can flourish and be turned into new enterprises, large and small. State capacity cannot do it all. It can enable and stimulate but it cannot succeed without a flourishing private sector to acquire the resilience needed to survive in a new age.

Here we come to the really basic problem — namely that the traditional autocratic systems of government in the Gulf States, with hereditary ruling families presiding and owning extensive parts of the whole economy, are inconsistent with these aims. Modern progress needs modern governance. Autocratic models become not merely inefficient, but unworkable, suffocating new business and small enterprise, as even the leaders of China are finding out as they let capitalism off the leash and try to wind down sluggish state-owned industries.

Can Arab leaders provide the necessary relaxation without losing control? Can they tolerate increased degrees of democratic participation? Can the various monarchies and emirates become constitutional rather than all-powerful?

But before becoming too pessimistic about the prospects, there is one chink of light and hope. Systems of government there need changing, but that does not mean adopting, say, the Westminster model, or the American Presidential model, or the similar French system. None of these have been doing too well. Faith in them has been waning.

In the age of big data, hyperconnectivity and transparency, when almost every Arab citizen carries one mobile, if not two, new forms of strong democratic participation could well develop. It is just possible that these new forms could grow best out of an old Arab pattern, where rulers were genuinely open and accessible to all under a sort of ancient tribal democracy and justice that was respected and did somehow work.

With new and efficient technocracies, with constant, direct and sensitive two-way contact with every community, indeed every citizen, as today's technology now fully allows, the right new mixture could emerge of real democratic vitality in a sound embracing framework of the rule of law, regulation and openness — a new Arab model of popular and just governance.

So not everything may be working against these hitherto super-rich but still near-feudal societies. Under pressure, deep reform could still evolve out of traditional systems of rule. But do the leaders of these nations have the vision and courage to guide the way through to a different future without breaking down? And do they have the wisdom to share power? These remain the very open questions.