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The Gulf Monarchies and the Challenges of a Region in
Flux

Edited by

Gertjan Hoetjes

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About the Authors

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Lucy Forster grew up in Stockholm, Sweden, before moving to the UK in 2016 to attend Durham University, where she studied International Relations. She graduated with a first class bachelor's degree in July 2019. Throughout her time at the university she studied a range of topics covering the politics of the Middle East, with a specific focus on political and economic developments in the Persian Gulf during her final academic year. Her research interests include regional integration, international development and gender equality.

Rosie Trainor is a recent graduate in International Relations from Durham

University. She has British parents, but was born and raised in the Netherlands. During her time at Durham, she was highly active in the Durham University Charities Committee, which exists to raise money for and awareness of an array of charities throughout the UK and beyond. Her research interest is in foreign policy, and she wrote her dissertation on how China has impacted power relations on the Nile. She is about to begin an internship at a charity in London, and hopes to continue her education with a Masters in Politics and Communication next year.

Stanislav Kudryashov is a recent graduate of Durham University with a BA in Politics having arrived there from St Albans School. Among his academic interests and pursuits has been the role of Islam in global politics, the political economy of the Middle East region, and ongoing internal difficulties in British politics relating to party positioning on the issue of Brexit. He currently resides in Little Chalfont, Buckinghamshire, and seeks to pursue further academic studies in the sphere of Jurisprudence.

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Introduction: A Region in Flux

Gertjan Hoetjes

As the birthplace of Islam and located among the main maritime trade routes between Asia, Africa and Europe, the Gulf region has historically been a region of global significance. This has attracted the interest in the region by extra-regional powers since the times of Alexander the Great, while at the same time the region has witnessed the rise of the Achaemenid, Sassanid, Abbasid and Omani empires which helped to shape developments in other regional arenas. In the module 'Politics of the Middle East's Oil Monarchies' we focused on modern history and contemporary developments in the Gulf monarchies. This edited volume is one of the great outcomes of the module, in which the undergraduate students at Durham University showed their excellent ability to analyse contemporary developments with

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their essays, resulting in original and creative contributions to the existing academic literature on the Gulf region substantiated by their intensive research efforts.

The Gulf monarchies that were the main units of analysis in the module have remained resilient despite changing tides in the global capitalist system, the rise of new global superpowers, the diffusion of ideologies such as pan-Arabism, Socialism and Islamism in the region and the process of modernisation that has engulfed the region since the start of large-scale oil exploitation in the 1950s. At the same time, they play a pivotal role in the global economy given the large share of the region in global crude oil and natural gas production that sustain industrial production and global transport. The nationalisation of oil companies in the 1970s and the quadrupling of the oil price after the 1973

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oil crisis has ensured the accumulation of massive financial surplus obtained from hydrocarbon exports by the Gulf monarchies. These financial surpluses have been used to purchase machinery and transport equipment, consumer commodities and military imports from the US, China and Europe, but also they have been reinvested in financial markets in North America, Western Europe and increasingly in East Asia,¹ stimulating economic growth in these regions. Simultaneously, a substantial amount of the ‘petrodollars’ acquired since the 1970s has been invested in other countries in the Middle East, providing the Gulf monarchies to shape political and economic trajectories in the wider region.

The student essays selected for this volume represent a concise overview of the main topics that were discussed during our lectures and tutorials. We started with a discussion of the impact of the rise of

European powers in the region in the fifteenth century, eventually culminating in the start of the ‘Pax Britannica’ in the region with the signing of the Anglo-Omani treaty in 1798. British support was crucial to solidify the rule of the current ruling families against external and internal challenges, while the British hegemony in the region facilitated the further economic subordination of the Gulf states to British-dominated trade. Meanwhile, the transition from coal to oil among industrial economies from the beginning of the twentieth century fostered an era of oil exploration in the region, enhancing the competition for these resources and a process of territorial demarcation² that resulted in a process of state formation. The British withdrawal ‘East of Aden’ in 1968 and their new-found independence created new security challenges for the Gulf monarchies, which they are still grappling with today as the essay of Lucy Forster on the Gulf

Cooperation Council (GCC) and Rosie Trainor's essay on the assertive foreign policies of the UAE and Saudi Arabia illustrate.

The second block of the course was centred on the survival of traditional monarchy in the region and the political economy of the Gulf monarchies. The large-scale oil exploitation from the late 1940s onwards stimulated processes of centralisation and modernisation, in which new modern state administrations arose and infrastructural projects helped to enhance the living standards of the indigenous population. While modernisation theorists such as Samuel Huntington predicted that these processes would lead to the emergence of new modern social forces that would challenge monarchical rule,³ the Gulf monarchies proved to be resilient and able to contain the challenges posed by modernisation. The explanations for their

survival range from the legitimacy that is derived from adherence to patriarchal and religious values,⁴ external support from Britain and the US,⁵ power-sharing arrangements between members of the ruling family,⁶ and the emergence of a 'rentier state' in the Gulf monarchies.⁷ The latter, rooted in the specific political economy that emerged in the six Gulf monarchies as a result of the inflow of external rents from the export of hydrocarbons, has for long time been the most dominant explanation for the resilience of the monarchies. The large accumulation of external rents by the governments relieves them from taxation and enables them to redistribute wealth towards the wider population to enhance their legitimacy. However, as discussed during the module, the unequal distribution of the rent fosters opposition against the governments, while the rent distribution also provides resources to potential dissenters that could mobilise

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against the regime.⁸ Simultaneously, the current structures have caused economic and social problems. As illustrated by Stanislav Kudryashov in his essay on economic diversification in Saudi Arabia and the Emirate of Dubai, the economic and social structures that emerged in the 1950s with the start of hydrocarbon exports inhibited the efforts of the Gulf monarchies to stimulate economic growth outside of the hydrocarbon sector to reduce their dependence on a limited number of export commodities.⁹ The 'resource curse',¹⁰ in which states with abundant exports of natural resources stagnate in their economic development could be applied to most the Gulf monarchies. This stagnation can be attributed to their vulnerability to price shifts in the commodity markets, the emergence of the aforementioned 'rentier state' that reduces the incentives for investment in productive sectors and the failure of bureaucratic institutions to formulate and

enact policies that pay more than lip service to the goal of economic diversification. As Kudryashov neatly points out, even an Emirate such as Dubai which arguably has diversified its economy away from hydrocarbons is still vulnerable to volatility, substituting a dependency on hydrocarbon exports with a reliance on foreign investment to keep afloat its real estate sector and safeguard the development of its financial sector.

The last weeks of the module were centred on contemporary developments in the Gulf region, from the Iranian revolution of 1979 until the recent Qatar crisis in 2017. They reveal a region that is in flux, due to the rivalry between Saudi Arabia and Iran for regional hegemony, internal and external pressures for political reform and growing rifts between the Gulf monarchies as a result of generational change at the leadership levels and the fissures caused by divergent

responses to the Arab uprisings of 2011. Lucy Forster and Rosie Trainor demonstrate how regional events such as the Iranian revolution, the Iraqi invasion of Kuwait in 1990 and the Arab uprisings have impinged upon the regime security of the Gulf monarchies and have affected their policies at a domestic, regional and international level. These regional events have taken place in a global context that has been shaped by the collapse of the bipolar system, a telecommunications revolution that has caused new economic pressures and enhanced interconnectedness with the rest of the world and the growing importance of the markets of East Asia for hydrocarbon and petrochemical export from the Gulf countries.

This overarching theme of a region in flux is what ties the three essays together. Stanislav Kudryashov outlines in his essay the efforts of the Gulf monarchies to reduce their

reliance on hydrocarbon exports in response to the depletion of oil and natural gas reserves and demographic pressures on employment and social welfare provision that make the current rentier system unfeasible. Particularly in countries such as Bahrain and Oman that lack substantive hydrocarbon reserves there is an economic imperative to develop new productive sectors to drive the transition towards a 'post-rentier state,' in which government revenues are largely derived from the taxation of the private sector and the latter becomes the main employer for nationals.¹¹ This has encouraged the articulation of national visions among the Gulf monarchies that are aimed to stimulate economic growth and reduce the dependency on the hydrocarbon sector. However, as described by Kudryashov, the distribution of unproductive external rents by the government to the society since large-scale oil exploitation has left a 'legacy of

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rentierism,' This legacy instils resistance against the introduction of new taxes, measures that reduce the privileged access of certain 'brokers' to state resources.¹² and efforts to reduce bureaucratic restrictions in the private sector that have benefitted certain business actors. Furthermore, Kudryashov notes that the labour force nationalisation that these visions entail have been hampered by attitudinal disinclinations towards private sector employment among nationals, as well as a skill mismatch between the needs of the private sector and the human resources offered by the national population. As a result, the private sector remains mainly dependent on low-skilled foreign labour, which has inhibited the development of more technology intensive production.¹³

This theme of a region in flux is also visible in Lucy Forster's essay on the Gulf Cooperation Council (GCC). Forster convincingly applies the Regional Security

Complex Theory to argue that the establishment of the GCC was an act of securitisation by the Gulf monarchies. The founding of the organisation was a response to the challenges posed by the British Withdrawal 'East of Aden,' the Iranian revolution, the Soviet invasion of Afghanistan and the Iran-Iraq war that threatened domestic regime security. However, as becomes clear in the analysis provided on the Qatar crisis, the GCC has not managed to resolve intra-regional rivalries between the Gulf monarchies. Meanwhile, diverging responses to the Arab uprisings of 2011 related to different perceptions of security and existential threats has further intensified these rivalries, emanating in the economic blockade imposed on Qatar in 2017 by Saudi Arabia, Bahrain and the UAE (amongst others) that has led to the gravest crisis since the establishment of the GCC.

In her essay on the assertive foreign policy of Saudi Arabia and the UAE during and after the Arab Spring, Rosie Trainor explains through an excellent application of regime legitimacy theory how the fluid and unstable environment that the uprisings created have encouraged an interventionist foreign policy to counter Iranian influence in the region and overcome ideological challenges to their domestic legitimacy. It reveals a region that is in flux, not only after the Iraqi invasion of 2003 and uprisings of 2011 that has provided Iran new opportunities to extend its influence in its competition with Saudi Arabia, but also as a result of the challenges posed by Islamist groups such as the Muslim Brotherhood that are a threat to the legitimacy of the Emirati and Saudi ruling families. Military interventions in Bahrain and Yemen led by the UAE and Saudi Arabia are clear demonstrations of the resources both countries are willing to commit to maintain

their influence over neighbouring states and counter any Iranian attempts to challenge their dominant position in the region. Meanwhile, the rise of the Muslim Brotherhood in Egypt and Ennahda in Tunisia to the inner circles of government after the Arab uprisings fostered a counter-policy by Saudi Arabia and UAE, with both countries being instrumental in the coup of Sisi against Morsi in 2013. These states have also adopted new repressive policies against perceived Muslim Brotherhood elements at a domestic level,¹⁴ alongside new measures to enhance their control over the public sphere through the adoption of new cybercrime laws.

This edited volume will start with Forster's essay on the establishment of the GCC, outlining how regional developments with the British withdrawal from the region, the Iranian revolution and the Iran-Iraq war in combination with ideational factors could

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explain the emergence of this regional organisation. The essay deftly explains how the interaction between material and ideational factors can explain the foundation of the GCC in 1981 and how these factors continue to evolve over time due to developments at the domestic, regional and international levels. The realisation that they are in constant flux could shed more light on the economic blockade of Qatar imposed by Bahrain, Saudi Arabia and the UAE, which shows how ties of amity could change in ties of enmity. After this, the edited volume will turn towards Trainor's essay on the shift in Saudi and Emirati foreign policy during and after the Arab Spring. Similar to Forster, Trainor convincingly argues that both ideational and material factors should be taken into account when examining the foreign policies of the Gulf monarchies after the Arab uprisings in order to understand the bigger picture. Similarly to Forster, she particularly highlights the importance of

regime legitimacy and security when examining the foreign policies of the UAE and Saudi Arabia since 2011. This volume will finish with Kudryashov's essay on economic diversification, which neatly explains the pressures the Gulf monarchies face to reduce their dependency on hydrocarbon reserves. His essay details the challenges the Gulf monarchies face to reduce their dependence on hydrocarbons, a transition that has become more urgent in the light of demographic growth and the decline of oil prices since mid-2014. This led to the adoption of new national visions that entail significant social and economic transformations that will shape the future of the Gulf monarchies in years to come.

Notes

¹ Adam Hanieh, *Money, Markets and Monarchies*. Cambridge: Cambridge University Press, 2018, pp. 31-32

² Adam Hanieh, *Capitalism and Class in the Arab Gulf States*, Basingstoke: Palgrave Macmillan, 2011, p. 5

- ³ Samuel Huntington, *Political Order in Changing Societies*, London: Yale University Press, 1968.
- ⁴ Michael Hudson, *Arab Politics: The Search for Legitimacy*. London: Yale University Press, 1977, p. 25.
- ⁵ Fred Halliday, *Nation and Religion in the Middle East*, London: Saqi Books, 2000.
- ⁶ Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies*. Albany: State University of New York Press, 1999.
- ⁷ Hazem Beblawi and Giacomo Luciani (eds.), *The Rentier State*, London: Croom Helm, 1987.
- ⁸ Gwenn Okruhlik, "Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States," *Comparative Politics* 31, No.3 (1999), p. 297.
- ⁹ Martin Hvidt, "Economic Diversification in GCC countries: Past Record and Future Trends," *Kuwait Programme on Development, Governance and Globalisation in the Gulf States* No 27. London School of Economics and Political Science, London, 2013. Available at: http://eprints.lse.ac.uk/55252/1/Hvidt%20final%20paper%2020.11.17_v0.2.pdf (Last accessed 22 August 2019), p. 4.
- ¹⁰ Michael Ross, "Review: The Political Economy of the Resource Curse," *World Politics* 51, No. 2 (1999): 297-322.
- ¹¹ Steffen Hertog, "What Would the Saudi Economy Have to Look Like to be "Post-Rentier"?" In *The Politics of Rentier States in the Gulf*, POMEPS Studies. Washington: Project on Middle East Political Science, 2019. Available at: https://pomeps.org/wp-content/uploads/2019/02/POMEPS_Studies_33.pdf (last accessed: 12 July 2019), p. 30.
- ¹² Steffen Hertog, "The Sociology of the Gulf Rentier Systems: Societies of Intermediaries." *Comparative Studies in Society and History* 52, No. 2 (2010): pp. 282–318.
- ¹³ Steffen Hertog, "The Private Sector and Reform in the Gulf Cooperation Council," *Kuwait Programme on Development, Governance and Globalisation in the Gulf States*, LSE Kuwait Programme Paper Series 30. London: London School of Economics and Political Science, 2013. Available at: http://eprints.lse.ac.uk/54398/1/Hertog_2013.pdf (last accessed 12 July 2019), p. 19.
- ¹⁴ May Darwich, "Creating the Enemy, Constructing the Threat: the Diffusion of Repression against the Muslim Brotherhood in the Middle East." *Democratization* 24, No. 7 (2018), p. 1290.

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Regime Security as a Determinant of Regional Integration – The Case of the Gulf Cooperation Council

Lucy Forster



The logo of the Gulf Cooperation Council (image by phaniraghavakumari's, IMGBIN)

In May 1981, the Gulf Cooperation Council (GCC) was established between the member states of Saudi Arabia, Bahrain, Qatar, Oman, Kuwait and the United Arab Emirates (UAE) at the organisation's first summit in Abu Dhabi.¹ The regional

organisation consists of a Supreme Council, a Ministerial Council, and a Secretariat, and aims to enhance integration between the Arab Gulf Monarchies. Located in a region of stalled integration projects, the GCC has been hailed as one of the more successful examples of regional cooperation in the Middle East.² This essay therefore studies the dynamics that underpin the regional organisation and seeks to identify the factors that led to its establishment in the early 1980s. It argues that security issues were the main impetus for the creation of the GCC, and employs regional security complex theory (RSCT) to highlight the centrality of security dynamics as drivers of regional integration. Four key events that shaped the Persian Gulf prior to the founding of the GCC are analysed: the end of Pax Britannica; the Iranian revolution; the Soviet invasion of Afghanistan; and the outbreak of the Iran-Iraq war.

Through the use of RSCT, the way in which these events affected security relations and interactions between regional actors is revealed. In particular, this essay argues that the founding of the GCC was an act of securitisation committed *in response to* perceived threats to domestic regimes triggered by the aforementioned events. Following an outline of these events and the impact they had on inter-state relations in the Gulf, this essay outlines organisational successes and challenges, relating them to the RSCT framework. Finally, the ongoing Qatar crisis is discussed, with specific reference to how this diplomatic rift bears testament to the powerful endurance of the regional rivalry and domestic security concerns that characterised the development of the GCC. Thus, a second aspect that emerges from the study of security as a driver of integration is that the GCC is currently undergoing a second wave of internal and external transformation, which

is inextricably tied to the concerns present at the birth of the organisation.

Regional Security Complex Theory

RSCT moves away from narrow definitions of security typically deployed in conventional IR theory and adopts a multidimensional understanding of the concept.³ Security is therefore seen in the context of different sectors, such as military, environmental and economic ones. The theory also identifies different levels of analysis where agents interact and argues that security provides a basis of analysis for such interaction.⁴ RSCT understands security as subjectively constructed by a given actor and thereby adopts a social constructivist approach, arguing that security can only be defined with reference to its usage. In this sense RSCT analyses are closely linked to Wendtian assumptions, as

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security 'is what states make of it', and that subjective perceptions of a threat determine an actor's decision to act. Security is thus the move, dependent on an actor's perception of threats, "(...) that takes politics beyond the established rules of the game and frames the issue either as a special kind of politics or as above politics."⁵ An issue therefore becomes *securitised* when an actor believes that such action is a necessary response to a threatening situation. Buzan, et. al., identify and outline three steps to securitisation as follows: first, there is a perception of an issue constituting an existential threat; second, emergency action is advocated to counter that existential threat; and finally, the effects of emergency actions challenge established rules.⁶

RSCT puts regions at the heart of analysis, as theorists maintain that geography and physical adjacency are the strongest drivers of security integration. Following this assumption, the theory posits that

geographical areas characterised by security integration form a regional security complex (RSC), defined by their "(...) durable patterns of amity and enmity taking the form of subglobal, geographically coherent patterns of security interdependence."⁷ In this way, the theory challenges neorealist theorising which sees regional security dynamics as a product of global distribution of power.⁸ Rather, the emphasis in RSCT is that *regional* power structures are the ones that shape dynamics in a given security complex.⁹

Advocates of the theory contest the precise definition of the Persian Gulf as a security region, creating some scholarly debate over the nature of the regional power structures shaping security integration. Although Gause defines the Persian Gulf as a RSC in its own right, the most common description of the area is as a sub-regional security complex located within the larger Middle

The End of 'Pax Britannica'

East RSC.¹⁰ In such definitions, the argument is that the Middle East RSC is made up of several sub-regional complexes, summarised in Noble's description of the MENA region as a "(...) system of systems (...)".¹¹ The region is characterised by inter-Arab and inter-Islamic relations, alongside external ones, where conflict often emerges as a prominent form of regional interaction.¹² As shall be seen, the rise of the GCC in the 1980s can indeed be linked to the conflictual interactions of the times and the way that these fostered a need for security interdependence among leaders of Arab Gulf states. If, as suggested by Gause, RSCs emerge as a result of intense security interdependence over time, then the security dynamics that led to increased cooperation in the context of the emergence of the GCC can appropriately be theorised through the framework of RSCT.¹³

The first way in which the establishment of the GCC can be analysed is through discussing the regional impact of Britain's withdrawal from the Persian Gulf. Indeed, Buzan and Wæver argue that the Gulf subcomplex was largely formed in the aftermath of British withdrawal from the area.¹⁴ Accordingly, this essay maintains that RSCT provides two useful analytical insights to account for the changes that took place in the aftermath of Britain's evacuation; it firstly explains processes of transformation that subsequently defined regional relationships and power structures, and secondly points to the significance of foreign intervention.

In the aftermath of the Second World War, and with memories of contentious regional endeavours such as the 1956 Suez Crisis

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lingering, Britain's departure from the region reflects the declining might of the British Empire.¹⁵ Having acted as a foreign protector of local states, the sudden absence of this protection critically altered regional security dynamics and exacerbated tensions between Gulf states. For example, upon learning about Britain's plans to withdraw, Iran increased its military power to advance national and regional goals, and thereby triggered the beginning of a regional arms race.¹⁶ Ahmadi notes "(...) in the ten years following Wilson's announcement, Iranian arms purchases rose sixteenfold (...) During the same period, Iraq's arms purchase rose sixfold and Saudi Arabia's twenty-three-fold."¹⁷ A 1971 report from the International Institute for Strategic Studies defines Iran as the region's strongest military power and concludes that Iran, rather than the British or any of the regional Arab states, dictated developments in the newly independent Persian Gulf.

Two examples displaying the antagonistic environment unravelling in tandem with Britain's departure are Iran's attempt to claim Bahrain as part of its territory in 1968, and its successful seizure of Abu Musa and the Greater and Lesser Tunbs, three strategically located islands whose ownership is still contested between Iran and the UAE.¹⁸ Combined with growing Iranian military power, such events demonstrate the changing nature of regional security dynamics which arguably intensified perceptions of existential threats among the Gulf monarchies. The events above thus highlight how British withdrawal triggered a period of internal transformation of the Persian Gulf subcomplex by intensifying security dynamics and creating a greater divide between the Arab Gulf monarchies on the one hand, and Iran on the other. RSCT posits that material conditions can enable such internal transformations, a feature

which in this case is arguably represented in the regional arms race.¹⁹

Following Britain's departure, the US stepped in to fill the regional power vacuum by means of the so-called 'twin-pillar' policy.²⁰ The US thus relied on Iran and Saudi Arabia, as two of the strongest regional powers and American allies, and particularly prompted the Shah to act as a regional 'policeman.'²¹ Noted by Zahlan, launching the twin-pillar policy was a US response to managing the possibility of expanding Soviet influence in a region of both strategic and economic importance to Western powers.²² Iraq was simultaneously receiving Soviet aid, a fact that only exacerbated military build-up in the region, as competing states sought to gain regional hegemony after Britain's withdrawal.²³ This points to Buzan and Wæver's argument of how a RSC changes through external factors when its membership increases or decreases,

which in turn triggers fundamental changes in its essential structure.²⁴ Gause's inclusion of the US in the Persian Gulf security complex thus supports the claim that the end of Pax Britannica can be seen as an entry point for such membership, thereby acting as an external trigger for regional transformation.²⁵

In sum, an analysis of the regional impacts of Britain's withdrawal from the perspective of RSCT demonstrates how it contributed to a dual process of internal and external transformation of the Persian Gulf. As argued by Ehteshami, the region experienced a period of intensified sub-regionalisation, with local actors and the US seeking to fill the void left after British departure.²⁶ While the inclusion of the US in the Gulf security complex is not shared universally among theorists, the points above demonstrate that US involvement had a profound impact on regional dynamics.

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These events are therefore hugely significant for understanding the emergence of the GCC, as they altered conditions of regional interaction within which future events triggering the rise of the GCC would take place.

The Iranian Revolution

The 1979 Iranian revolution marked a climactic turn of regional events. Long states: “Virtually every political study of the Gulf made before the revolution has become obsolete.”²⁷ The complete restructuring of Iranian society led by Ayatollah Khomeini boosted the power of Shi’i communities and added weight to Iran’s political and ideational influence in the region.²⁸ The popularly supported Iranian revolution also signified the collapse of one of the ‘pillars’ upholding US interests in the region, further altering regional security dynamics.²⁹ Ramazani considers the revolution to be the

single most influential factor which triggered the establishment of the GCC because of the way perceptions of expanding Shi’i domination challenged the stability of the Arab Gulf monarchies.³⁰ Using RSCT, this section supports such claims, arguing that the Iranian revolution triggered perceptions of existential threats to local regimes and further prompted the securitising move of establishing a regional organisation.

Khomeini’s regime tied two goals to the revolution; first, to institutionalise the ideals of the revolution domestically, and second, to export revolutionary values.³¹ A quote from Khomeini reads “The Iranian Revolution is not exclusively that of Iran (...) Islam does not belong to any particular people. We will export revolution throughout the world because it is an Islamic revolution.”³² Such statements, stemming from revolutionary ideals based on anti-

monarchical Shi'i Islam arguably appeared threatening to states led by conservative Sunni monarchies. The presence of Shi'i minorities in the Gulf monarchies, which in Bahrain constitute a majority of the population, meant that ruling Sunni regimes worried about the extent to which such rhetoric could trigger Shi'i uprisings, and thus create a threat to regime stability.³³

A number of incidents threatening the stability of ruling Gulf monarchies occurred shortly after the Iranian revolution. In Saudi Arabia, indigenous Shi'i riots against the ruling monarchy in November 1979 and in January 1980 have been linked to Iranian revolutionary propaganda.³⁴ Moreover, Khomeini's revolution coincided with the seizure of the Grand Mosque in Mecca by ultra-fundamentalist Muslim groups in 1979, described by Ramazani as "(...) the most traumatic domestic threat to the House of Saud in history."³⁵ While the incident in Mecca could not be linked to Shi'i groups,

the fact that these turbulent events took place within such a short time span further compelled the Saudi leadership to coordinate security efforts with neighbouring states to counter domestic and regional threats.³⁶ In Bahrain, threatening statements from prominent clerics advocating in favour of exporting the revolution by force worried the domestic regime. For example, Ayatollah Sadeq Ruhani, a militant follower of Khomeini, stated that Bahrain was an Iranian province that would be annexed should it not adopt Islamic policies modelled on the Iranian revolutionary agenda.³⁷

As outlined above, Buzan, et. al. argue that issues become securitised when they are perceived as existential threats. Examples of Shi'i protests and fears of annexation in Saudi Arabia and Bahrain arguably represent mutual experiences of such existential threats. To the extent that the Iranian revolution was perceived as the source of such insecurities, then, the subsequent move

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towards deeper security integration that followed in the establishment of the GCC can be seen as a response to such threats, or an act of securitisation. Moreover, in triggering shared security concerns, the Iranian revolution can be linked to RSCT in that it further solidified regional patterns of amity and enmity that would characterise the GCC.³⁸

The Soviet Invasion of Afghanistan

Towards the end of the same year as the outbreak of the Iranian revolution, the Soviet Union invaded Afghanistan. While the extent to which this event was seen as a direct threat to the Gulf monarchies is questionable, it is relevant to the establishment of the GCC because it further cemented the presence of a second foreign power in the region and created a link between regional and global Cold War

security dynamics. In turn, this points to the interplay between different levels of analysis emphasised in RSCT. Tellingly, Khadduri argues that although the Iranian revolution concerned US policy-makers, it was the expansion of Soviet presence in the region that aggravated America's involvement.³⁹ In response to the Soviet invasion, US president Carter clarified his stance towards the region in a State of the Union Address:

Let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force.⁴⁰

This statement captures the essence of the Carter Doctrine, which sought to provide US allies in the Persian Gulf with military support in efforts to deter Soviet

expansionism.⁴¹ Outlining the options of effective regional strategies, Ross' argument for the US to devise a policy that resonates with Gulf regimes to successfully counter Soviet influence points to how global power players were drawn into regional issues.⁴² In turn, this resonates with RSCT hypotheses that global polarity enables, constrains, or reinforces regional dynamics.⁴³ Sterner, for instance, emphasises that for the Gulf monarchies the greatest concern triggered by events in Afghanistan was not the fear of the Soviet Union itself, but the threat of Soviet-supported domestic insurgencies with the fresh memory of the Dhofar war in Oman between 1965 and 1976 in mind.⁴⁴ Moreover, the expansion of Soviet influence in the Middle East could be seen as boosting the Iraqi regime, which posed a threat to the conservative monarchies.⁴⁵ The introduction of the Carter Doctrine as a response to US regional interests therefore in effect served local security interests of the Gulf

monarchies, who could boost their own efforts to establish a regional security alliance through the military support offered by the US.⁴⁶ In other words, one can create a link between the Iranian revolution and the Soviet invasion of Afghanistan because intensified Cold War bipolarity provided the Gulf monarchies with the tools, in the form of military capabilities and strengthened ties with external security actors, to counter existential threats.

The Iran-Iraq war

A final factor to consider when analysing the establishment of the GCC is the outbreak of the Iran-Iraq war in September 1980. A multitude of reasons can be applied to account for what triggered the war, although formal explanations concern territorial disputes and control of the Shat-al-Arab waterway.⁴⁷ For instance, Gause states that the onset of the war can be linked to the

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regional dynamics triggered by the Iranian revolution. Paradoxically, the chaos of the revolution made Iran appear as both an ideological threat and at the same time as a militarily weak, isolated entity, giving the Iraqi leadership a dual motivation for launching its attack.⁴⁸ Noted by Legrenzi, the war constituted a final push in the direction of institutionalising regional security cooperation, as “(...) all hesitations about forming an organisation that would bring together the Arab shaikhdoms of the Gulf were laid to rest.”⁴⁹

Two concerns were raised by the Gulf monarchies in response to the outbreak of the war: first, the potential spread of the ideological threat living on since the Iranian revolution; second, the prospect of being dragged into the conflict and attacked by Iranian or Iraqi forces.⁵⁰ Thus, Braun maintains that establishing the GCC was perceived as an efficient way to manage

such concerns, as security cooperation created both a military deterrent to outside threats, and a framework of cooperation for managing transnational spill overs of ideological rebellion.⁵¹ While the growth of either of the warring parties could constitute a source of existential threat, it is worthwhile to comment on overlapping similarities that exist between the Gulf monarchies and *both* Iran and Iraq to demonstrate that, in this case, Iran was not the sole trigger of existential threats prompting the Arab Gulf monarchies to cooperate. At the same time, the Gulf monarchies’ perceptions of Iraq also played a significant role in this development. As explained by Khadduri, the Ba’th party’s endorsement of socialism and revived calls for a pan-Arab order under Iraqi leadership sat uneasily with the conservative ideologies of the GCC states.⁵² The war, therefore, justified the exclusion of both Iran and Iraq from the emerging regional cooperation,

while solidifying patterns of amity among the emerging GCC regional fabric.⁵³

Is it possible, then, to apply RSCT to link the outbreak of the Iran-Iraq war with the establishment of the GCC? The aforementioned points underscore how responses to the war can be seen as defining patterns of amity and enmity that then characterised the nature of the GCC. Additionally, the fact that the war occurred between two neighbouring units of the Persian Gulf sub-regional complex adds value to the RSCT argument that security interactions are driven by geography and physical adjacency.⁵⁴ The extent to which the 1980 Gulf war should be considered a cause of the establishment of the GCC in and of itself, however, is contested. Khadduri notes “Only *after* the Iran-Iraq war seemed to present *serious threats* to their very existence did they [the Gulf monarchies] overcome local differences and

dynastic rivalries to form an Arab Gulf security organisation.”⁵⁵ Ramazani, too, concludes that the war did not cause the emergence of the GCC, but rather served as a catalyst that crystallised already existing perceptions of security in the region.⁵⁶ This is echoed by Priess, who argues that while the war affected the Gulf monarchies’ strategic thinking and the design of the organisation, it was the pre-existing tensions and perceptions of threats that triggered a need for increased security cooperation.⁵⁷ The war, in other words, can therefore be seen as a manifestation of tense relations along lines of ideology and identity characterising the Persian Gulf security complex. In the context of heightened perceptions of existential threats triggered by changes in foreign power intervention and the outbreak of the Iranian revolution, the Iran-Iraq war demonstrated the vulnerability of single regimes in the face of such transnational tensions, further urging

states with common interests to pool their resources and unite.

Establishment of the GCC

In May 1981, the GCC was founded between the six Gulf monarchies. The preceding sections of this essay have discussed the impact of changes in global-regional interaction, as well as regional revolutions and conflicts through the framework of RSCT, all of which consolidate the following argument: the establishment of the GCC was an act of securitisation in response to perceived threats to regime stability. The following section discusses the process of security integration in the GCC and outlines certain obstacles to deepened security cooperation.

The GCC founding charter does not make explicit references to security, but rather emphasises cooperation in cultural and

economic sectors.⁵⁸ This does not necessarily disprove the hypothesis that security concerns were the impetus for integration, as initial omission of references to security cooperation can be linked to the Gulf monarchies' fears of antagonising Iran or Iraq and aggravating ongoing regional conflicts.⁵⁹ In fact, the emphasis on cultural and economic integration and the subsequent deepening of such cooperation within the organisation served to increase domestic regime security through providing economic benefits to dissident groups, thereby reducing the likelihood of domestic unrest.⁶⁰ The first few years of the GCC's existence saw a substantial increase in security cooperation, which to an extent also fostered a sense of interdependence among member states.⁶¹

Additionally, the fact that the GCC remained intact after bordering the neighbouring Iran-Iraq conflict for 8 years demonstrates a level

of initial success of the organisation.⁶² In 1984, following the alleged Iranian attack on three tankers owned by GCC states, the organisation convened and collectively referred to the United Nations Security Council (UNSC). After this, resolution 552 was issued and the attacks were condemned by the international community.⁶³ During the same year, the GCC launched the creation of the Peninsula Shield Force, a joint strike force led by Saudi Arabia, proving that increasing military integration efforts took place in the early years of the organisation's existence. Through this collective military body, the GCC conducted joint military actions, which in turn cultivated certain expressions of group solidarity among member states.⁶⁴

There are limits to the extent to which these integration efforts should be seen as successful. Managing the coordination of six independent military forces with different

arms capabilities, nationalities, as well as ethnic and linguistic differences among foreign recruits, has remained a difficult challenge for the organisation.⁶⁵ A quote from Sultan Qabus of Oman regarding the early military arrangements of the GCC reads "Let us be frank. We do not possess the military capability needed to confront the other side...We do not have the army that can defend the security of the Gulf."⁶⁶ Such limitations became abundantly clear in 1990 when the Peninsula Shield Force proved unable to intervene and successfully counter the Iraqi invasion of Kuwait, an operation which was instead managed by the US, in turn displaying the continuing reliance on foreign powers as guardians of regional security.⁶⁷

As argued by Partrick, a prevailing sense of state-centrism impairs the development of long-lasting group identifications in the GCC.⁶⁸ Barnett and Gause, for instance,

employ the metaphor of ‘two caravans travelling in opposite directions’ to explain how, while developments of mutual concerns and pooled identities have taken place at the level of societies and communities, such developments are not mirrored at regime level.⁶⁹ Equally, Partrick recognises the development of a *Khaleeji*, or Gulf, identity among GCC nationals, but maintains that such a shared identity fails to overcome the state-centric policy goals of GCC regimes.⁷⁰ In turn, the insufficiency of seeing identity-based issues as drivers of regional integration adds value to the notion of security as a dominant trigger of regional integration and thus supports arguments raised in RSCT. Noted by Fawcett “(...) identity is not enough to generate cooperation unless states choose to act on it meaningfully (...) the politics of identity will not save them [the states]; there must also be compelling material reasons to act.”⁷¹ Indeed, Barnett and Gause emphasise

that GCC integration is stalled because of the organisation’s inability to address *intra-GCC* security concerns and rivalry, which not only undermine achievements towards creating a regional identity, but also reaffirms the idea that regime security determines GCC development at an organisational level.⁷²

Contemporary Crises

A final point of discussion in this essay concerns the Qatar crisis and its impact on the future of the GCC. The recent outbreak of the 2017 Qatar crisis is particularly relevant to this essay because it firstly connects security concerns that triggered the birth of the GCC to contemporary disputes, and secondly because it has been described as “(...) the gravest crisis since its [the GCC’s] formation.”⁷³ In essence, the current isolation of Qatar by the fellow GCC states of Saudi Arabia, Bahrain and the UAE is grounded in accusations of ‘terrorist

funding' operations of the Qatari regime, which are perceived as threatening by the states leading the blockade.⁷⁴ These accusations ultimately resulted in a complete boycott of Qatar by Saudi Arabia, Bahrain and the UAE in 2017. In turn, the blockade has forced Qatar to strengthen alliances with countries elsewhere, thereby fundamentally challenging the stability of the GCC.⁷⁵

Bianco and Stansfield argue that intra-GCC tensions, whereby Qatar is demonised because of its relationship with Iran and organisations tied to the Muslim Brotherhood, demonstrate the GCC regimes' diverging conceptions of security, as shaped and intensified during the 2011 Arab Spring.⁷⁶ Importantly, this essay does not argue that the Arab Spring should be seen as a cause of the current diplomatic rift in and of itself. Intra-regional rivalry between Qatar and Saudi Arabia extends much further back than the 2011 uprisings. A

prominent example is the long-standing historical and religious tensions between the two states' different interpretations of Wahhabism. While Qatar is the only other GCC state alongside Saudi Arabia adhering to Wahhabism, the two countries practice fundamentally different forms of the conservative interpretation of Islam.⁷⁷ Rather than appointing a Wahhabi religious clergy or giving religious scholars an official place in government, which by extension would have created dependence on Riyadh as a religious core, the Qatari leadership has historically encouraged a close relationship with the Muslim Brotherhood in a deliberate attempt to avoid the grip of Saudi hegemony.⁷⁸ Against the backdrop of these long-lived religious tensions and controversies regarding support for the Muslim Brotherhood, the 1995 bloodless coup in Qatar, where Emir Khalifa bin Hamad abdicated to give rise to his son crown prince Hamad bin Khalifa al Thani

without the blessing of the Saudi leadership, further soured intra-GCC relations and attitudes towards Qatar. Without the consent from the GCC's most powerful nation, the 1995 coup in Qatar arguably represented both a provocation and a potential security threat to the GCC regimes, contributing to further deteriorations in Saudi-Qatari relations.⁷⁹

Due to the fact that this essay primarily focuses on factors leading to the establishment of the GCC, it is beyond its scope to account for the sheer variety of regional dynamics that have affected the organisation's development since 1981. As noted in the discussion above, religious differences and tensions pre-date the very formation of the organisation, creating a somewhat vulnerable and rocky basis for regional cooperation. The divergent responses to the 2011 uprisings, however, represent a pivotal moment in the history of

organisational cooperation in the Persian Gulf and an enhancement of simmering regional tensions, with consequences now seen in the current isolation of Qatar. Rather than considering the uprisings a potential threat to regime stability, the Qatari leadership looked favourably upon the protests spreading throughout the MENA region, considering them an opportunity to assert regional influence. While protests erupted in Saudi Arabia and Bahrain in Shi'a minority communities during the Arab Spring, the Qatari regime was spared from such uprisings. Protests in Saudi Arabia and Bahrain did not only trigger national perceptions of threats to regime security, as dissident Shi'i groups supported by Iran took to the streets, but also fuelled the resentment of various regimes in the GCC states towards Qatar, where the regional uprisings were broadcast through the state-owned media outlet Al Jazeera. The different interpretations of the Arab Spring

are therefore testament to divergent perceptions of security and existential threats present within the GCC, which in turn undermine the notion of commonality needed to sustain a regional entity.⁸⁰

Arguments outlined above thus support the notion that the regional turmoil caused by the Arab Spring has triggered transformation in the Gulf security complex, which relates to processes of regional transformation described in RSCT. Moreover, RSCT emphasises that when regional patterns settle, they are perpetuated by structural forces of the international system until a major shock triggers transformation.⁸¹

Arguably, the Arab Spring represented such a shock. The effects of the downfall of Middle Eastern regimes during the Arab Spring are unparalleled, leading to the current exacerbation of ideological divides, intra-organisational crisis, and a revival of the very perceptions of existential threats

causing the Gulf monarchies to institutionalise efforts of regional cooperation in the early 1980s. Ryan claims that regime security remains the primary driver of alliance formation in the Middle East, which by extension supports the argument that differing perceptions of prevailing security dynamics can cause an alliance, such as the GCC, to fracture.⁸² In paying attention to security dynamics, RSCT thus points to valid arguments of how current diverging perceptions of existential threats may trigger acts of securitisation that divide established alliances.

Limitations to the RSCT Model

Although RSCT theorists use multisectoral definitions of security, the failure to discuss alternative dynamics of integration is a theoretical limitation. While maintaining that the GCC is an example of a micro-

region in which efforts of region-building take place, Ehteshami criticises RSCT on the grounds that it neglects political economy factors driving regional development. For example, reliance on oil exports profoundly shapes GCC states' relationships with outside powers, but this aspect is not considered within the RSCT framework.⁸³

Although economic cooperation has developed considerably since the founding of the organisation, notably through the establishment of regional customs unions and trade agreements with outside actors such as the EU, trade is heavily focused on oil and intra-GCC trade remains low.⁸⁴ In turn, these state-centric economic conditions and preferences impede the deepening of security integration. Kechichian argues that regional stability cannot only be pursued through military means, but demands cooperation in non-military fields.⁸⁵ In light of links between past and contemporary crises, and their grounding in regional and

domestic security dynamics, however, this essay maintains that RSCT provides a useful framework for analyses of the GCC as it points to the centrality of such security concerns in organisational development.

Conclusion

This essay has studied the impact of factors of regional and global significance that led to the establishment of the GCC in 1981. Four key events have been identified and discussed as they unfolded chronologically: Britain's withdrawal from the Persian Gulf; the Iranian revolution; the Soviet invasion of Afghanistan; and the Iran-Iraq war. British departure from the Gulf required the US to intervene in its place and set the scene for future security interaction between regional actors. In turn, the three succeeding events triggered perceptions of existential threats and solidified patterns of amity and enmity underlining GCC integration and relations

with other states. Above all, the Iranian revolution, which fundamentally altered the ideological and strategic layout of the region, triggered perceptions of existential threats to the stability of the Gulf monarchies. Using RSCT, the overarching argument of this essay has been that the creation of the GCC was an act of securitisation in response to domestic security. As regional events triggered mutual security concerns, the GCC states extended their efforts across national borders and coordinated in a framework of security cooperation. In so doing, the organisation provided a platform for the Gulf monarchies to counter threatening rhetoric and ideologies from Iran and Iraq.⁸⁶

While successful in some of its initial operations, contemporary crises currently threaten the very existence of the organisation. In the aftermath of the Arab Spring, the 2017 Qatar crisis demonstrates the consequences of revived perceptions of

existential threats along sectarian lines. Gause describes the ongoing rivalry between Riyadh and Teheran as a ‘regional cold war’, constituting a mesh of domestic conflicts, hegemonic power aspirations, and transnational identities.⁸⁷ The successful coexistence of such a multitude of identities and affiliations depends on “(...) the establishment of a community of states that tolerate one another’s existence and provide regional order through their mutual relations.”⁸⁸ It remains to be seen whether the reawakening of the security perceptions that triggered the establishment of the GCC will now result in organisational downfall and disintegration.

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2

Regime Legitimacy and the Assertive Foreign Policies of Saudi Arabia and the United Arab Emirates

Rosie Trainor



The Eurofighter Typhoon, used by Saudi Arabia for bombing raids in Yemen (Curioso Photography, Unsplash)

The Arab Spring, beginning in Tunisia in 2011, set loose a wave of protests that threatened to dramatically transform the political landscape of the Arab world. The fall of Arab leaders in Tunisia, Egypt, Libya

and Yemen made clear that regional dynamics were changing, and the potential for the removal of authoritarian regimes, and the establishment of democracy in the region, felt closer than ever before. With the collapse of states, rise of new actors, and Iran's increasingly expansionist policies, Gulf states felt increasingly threatened by the ripple effects of these events.¹ Many states moved to redefine their rules, pursuing a more assertive approach to protect their regimes in this rapidly evolving regional.² This was particularly true of Saudi Arabia and the United Arab Emirates (UAE), where the Arab Spring played a pivotal role in provoking a dramatic shift in their foreign policies.³ Previously lacking military means and pursuing a more passive or "quiet diplomatic" approach, Saudi Arabia and the UAE have become hyper-active regional players as well as hyper-nationalists, no longer only concerned with preventing the spread of these popular protests to their

territories, but increasingly pursuing an interventionist foreign policy.⁴ This new approach involves greater military, diplomatic and financial interventions across the Arab world, seeking to preserve their regimes in the context of an unstable regional order.

The obsession with regime security, legitimacy and survival, predating the Arab Spring, provides the framework with which to analyse current Saudi and Emirati foreign policy. *Regime legitimacy theory*, advocated by Gregory Gause and Curtis Ryan, among others, explains why both states feel the need to strengthen the ruling regime and remove challenges that could threaten it.⁵ Regime legitimacy refers to “the capacity of the system to engender and maintain belief that the existing political institutions are the most appropriate ones for society”,⁶ which has both domestic and external dimensions. These regimes act to protect themselves

against ideological challenges that could challenge their monarchical legitimacy, as well as maintain their national security against external threats.⁷

The theory’s emphasis on constructivist elements of identity and change in both the domestic and regional spheres, as well as realist notions of security dilemmas and regional alliances, demonstrates how it connects different theories in a more dynamic, comparative approach.⁸ The importance of ‘omnibalancing’ is also relevant to the analysis of the UAE and Saudi Arabia, as they have to balance both domestic threats to regime legitimacy and stability, as well as opportunities or constraints emanating from the external environment, particularly in terms of hegemonic ambitions.⁹ The importance of both ideological as well as material elements will therefore be considered. As will be demonstrated in this essay, the attempt of

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the states to cope with pressure emanating from different directions in the pursuit of regime legitimacy explains the nature of their newly assertive foreign policies in the region. Furthermore, this all needs to be considered within a particular historical framework, namely, the “New Middle East Cold War” between Saudi Arabia and Iran, which will be expanded upon throughout the essay.¹⁰

To explain Saudi Arabia and the UAE’s more assertive foreign policies, this essay will be split into two main parts: their perceived threats to domestic legitimacy and stability, and regional threat perception explanations. Throughout, their approaches will be compared and contrasted. In terms of domestic threats, the fear of an initial ‘spill-over’ into the Saudi and Emirati states that could threaten internal stability will be analysed. Furthermore, the ideological threat posed by the uprisings and their aftermath to

the survival of the monarchical regimes will be discussed. In terms of regional-level considerations, the perceived opportunity the Arab Spring gave to Iran in their pursuit of regional hegemony will be analysed, as well as how counter-balances against this were carried out in examples such as Syria, Yemen and Egypt. In addition, the changing role of the United States in the region, as well as Saudi-Emirati tensions with Qatar, will be considered. This essay will ultimately conclude that regime survival is the key driver of the UAE and Saudi Arabia’s assertive foreign policies, though they have different approaches, against threats emanating both from the domestic and regional levels, which are invariably interconnected.

Domestic Legitimacy and Stability Threats

To begin, the initial threat posed to Saudi Arabia and the UAE by the Arab Spring was of a spill-over of the uprisings into their states, which would threaten not only domestic stability, but the very legitimacy of these Gulf monarchies' reign. The spread of protests in old Arab capitals could be contagious, and thus the UAE and Saudi Arabia moved to limit the Arab Spring within its borders to prevent an imitation or 'domino effect.'¹¹ They initially pursued counter-revolutionary measures to prevent the emergence of domestic uprisings, exemplified in Bahrain and Egypt, playing a reactionary role by deploying forces to keep existing regimes in power.¹² As royalists, the spread of modernising ideas sparked a strong sense of fear that this would result in a loss of legitimacy in their right to rule.¹³

In Saudi Arabia, the Al-Saud family had ruled since 1932, and in the UAE, the seven ruling families have also been in power for centuries.¹⁴ Beyond just the survival of their

authoritarian leadership, they were concerned with clinging onto their monarchical powers, built on familial succession and almost total control of the state. The notion that a constitutional monarchy could emerge in other states reminded them that they were the only monarchies left in the world holding onto both authoritarian and monarchical state apparatus.¹⁵ The nature of their regimes illustrates how their desire to protect regime legitimacy and survival were key drivers of their initial foreign policy reactions against the threat of the Arab Spring.

In Saudi Arabia, fear of the mobilisation of groups within its own state was exacerbated with the breakout of protests in bordering Bahrain. The potential for this to spread to Saudi Arabia was evidenced by the February 2011 calls for a "day of rage", where Saudis were called to demonstrate against their government, following the models of other

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Arab states, though this was quickly repressed.¹⁶ Their alarm at protests in Bahrain is rooted largely in its possession of a Shiite majority, who even before 2011, had been a source of discontent in the country. Shia in Bahrain were viewed as a column of the Islamic Republic of Iran, who had carried out protests that were coined the “Bahraini Intifada” between 1994 and 1998. In 2001, Bahrain’s King declared a new reform programme, fighting corruption and state discrimination among other things.¹⁷ This had shown the potential for the emergence of a constitutional monarchy, which Saudi Arabia sought to avoid at all costs, and thus pressured the Bahraini government to fight against calls for a more liberal political environment that transcends purely religious terms.¹⁸

Saudi Arabia’s response to the Bahraini uprising, deploying forces as part of the Peninsula Shield in March 2011 to keep the

ruling family in power, can be explained by the threat it would pose to the Saudi regime’s survival. They feared it would mobilise the Shiite minority in their Eastern province, historically discriminated against and a source of opposition to the government, whom also felt a close connection to their Bahraini Shiite neighbours.¹⁹

The vulnerability of the Bahraini al-Khalifa ruling family, with whom the al-Saud family were closely allied, illustrated the potential for the spread of Shiite discontent that would threaten Saudi stability.²⁰ Its interventions thus sought to send a warning to its Shiite minority that unrest would not be tolerated. Furthermore, through framing the intervention in sectarian terms, Saudi Arabia also sought to garner the support of its Sunni majority, by presenting itself as the protector against Shia acting as an ‘agent’ of Iran, in the hope that they would abandon any desire

to protest.²¹ In terms of regime legitimacy, this foreign policy response was driven by its perceived need to maintain both domestic stability, and prevent the emergence of powerful democratic demands.

In the UAE, the Arab Spring posed a similar threat to domestic stability, and thus they also adopted a more assertive foreign policy approach. Increased youth activism across the Arab world, critiquing the political culture and norms of the ruling system, was perceived as a threat to their stability, although the UAE itself saw little political mobilisation by the youth.²² However, the potential for the other groups within the state to rise up, most notably the 'al-Islah' who were linked to the Muslim Brotherhood, prompted them to pursue a foreign policy that would allow them to secure legitimacy in the UAE itself.²³

A petition released in March 2011 calling for a constitutional monarchy gained 132 signatures, and was evidence of growing criticism against the ruling family and their policies.²⁴ The growing activism of the al-Islah party within the state was perceived as a threat to its national security and domestic regime legitimacy.²⁵ Their quick reaction to quell Bahraini protests alongside Saudi Arabia is illustrative of their shared concerns about a crisis of monarchical legitimacy spreading across the Gulf.²⁶

Furthermore, their intervention in Yemen can also be seen through its potential threat to domestic political stability. Because of the large number of Yemeni workers in Emirati security institutions, they feared that the conflict in Yemen could influence their domestic security.²⁷ Thus, these rapid and assertive responses can be partly understood as the regime attempting to hold onto domestic stability, and to protect legitimacy

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at home from the potential mobilisation of groups within its own state. This fear of a domino effect was similar in both the UAE and Saudi Arabia.

Ideology and identity are also of large importance in understanding the assertive foreign policies of the UAE and Saudi Arabia after the Arab Spring. This brings in the constructivist element of regime legitimacy, in terms of how *ideas* are essential drivers of behaviour as opposed to only material considerations. The ideological challenge to the legitimacy of their respective Islamic identities played a key role in the more assertive foreign policy adopted by Saudi Arabia and the UAE, but must be considered as only one consideration among many driving their policies.²⁸ In Saudi Arabia, religion is an essential source of its domestic legitimacy, namely its Wahhabi Islamic identity. This conservative movement within Islam's

Sunni branch is used by the al-Saud family used to portray itself as rightful guarantor of traditional Islam.²⁹ The Arab Spring and the rise of Islamists threatened to challenge Saudi Wahhabism on its grounds, and was perceived as particularly threatening in the context of the competing Iranian ideology infiltrating the Arab world.

This challenge to Saudi Arabia's ideological legitimacy can be traced back to the Iranian Revolution in 1979, which undeniably had inspirational effects on the region.³⁰ Iran's Islamist model, connected to the Shiite community, rejects monarchical rule, which contrasts to Saudi Arabia's discouragement of democratic reform.³¹ The founder of Wahhabism, Muhammad ibn Abd al-Wahhab, regarded the Shia community as non-Muslims, and thus this ideological battle has played out largely in sectarian terms.³² When regimes fell in Tunisia and Egypt, the Iranian government was quick to

portray these events as an ‘Islamic awakening’ that their example had inspired.³³ Saudi Arabia’s hyper-nationalist stance in protecting its Wahhabi identity, framed in sectarian terms to secure support of its Sunni population, is thus driven to a large extent by the ideological threat posed by Iran that would challenge the legitimacy of Wahhabism and therefore the Saudi regime itself.

While Saudi Arabia is largely concerned with the Iranian challenge to its Wahhabi model, in the UAE, the rise of the Muslim Brotherhood and other such Islamist groups across the region are perceived as having the greatest potential to challenge the legitimacy of its regime.³⁴ The UAE derives its legitimacy from tribal dominance, in that each emirate is ruled by the most politically powerful tribe. Many descend from the Bani Yas tribe, which arrived in Abu Dhabi in the 18th century, and hold key positions on the

executive council.³⁵ The UAE further derives legitimacy from its history of good governance, and contrastingly to Saudi Arabia, is secular. The rise of political Islam with the onset of the Arab Spring threatened to undermine this, in its view of secularism and tribal dominance as illegitimate.³⁶ For example, controversial education reforms underway in the UAE that are more Western in nature and feature fewer Islamic studies has been capitalised on by the Muslim Brotherhood, who have spread fears that these changes threaten Emirati values.³⁷ Groups associated with the Muslim Brotherhood within the UAE are regarded as existential threats, and thus by branding it as a terrorist organisation in 2014, it sought also to send a message to its supporters domestically.³⁸ The UAE’s foreign policy is largely oriented towards fighting Islamic groups such as ISIS, as well as repressing its ideology, which demonstrates the relevance of the perceived ideological threat to its

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regime.³⁹ Further, the Arab Spring gave the Horn of Africa more ideological relevance in the eyes of the UAE, as political Islamists associated with the Muslim Brotherhood were seen to be growing across the world.⁴⁰ This more direct interventionist role includes its efforts against the Eritrean Islamic Jihad Movement, where the UAE has deployed combat aircraft, and the Al-Shabab in Somalia, where it has set up a military base.⁴¹ The fact that such groups were gaining influence as far away as North Africa was alarming, and demonstrated the interconnected nature of conflicts that could challenge the UAE's ideological relevance. The growth of reformist Islam movements was interpreted, to an extent, as a domestic threat in terms of the ideological competition it posed to the ruling regime.

On a comparative note, the importance of ideology and identity is evidenced by the divergent agendas pursued by Saudi Arabia and the UAE in Yemen. While the UAE

entered a joint intervention with the Saudis in 2015, and has condemned recent terrorist attacks by the Houthi, it perceives its role in Yemen as more limited, and confined to the South. Its primary aims are in counter-terrorism and the elimination of political Islam, particularly Al Qaeda.⁴² This reflects its ideological preoccupation with Islamist groups, given its status as a secular monarchy, and desire to see a separate North and South Yemen, where it can preside over the latter.

Contrastingly, Saudi Arabia operates mostly in North Yemen, concerned primarily with ousting Houthi rebels and supporting the Hadi government, to ultimately roll back Iranian influence. Saudi support for the Hadi administration rests uncomfortably with the UAE, given its close affiliation to al-Islah, the branch of the Muslim Brotherhood in Yemen. The UAE, via its Saudi alliance, was thus placed in an uneasy alliance with

the Islamist party, which support the Hadi government and favours Yemeni unity.⁴³ Their prioritisation of threats, and the ones they perceive as the greatest, are clearly different, evidenced most recently by the announcement of the UAE's withdrawal from Yemen, seeing its Southern mission as largely complete.⁴⁴ Their policy preferences, to some extent, reflect their particular ideological stances, as well as geopolitical considerations that will be discussed in the following section.

The relevance of ideology, transcending a traditional realist balance of power logic, is further evident in regional alliances and interventions. For example, the hostility of Saudi Arabia and the UAE towards Qatar and Turkey, who has a populist democratic Islamist model, since the Arab Spring is to an extent based on their support for the Muslim Brotherhood.⁴⁵ It also shows how sectarian affinities cannot predict alliances,

and that deeper ideological divisions may have greater importance.⁴⁶

Regional Legitimacy and Security Threats

Turning to the regional level, important structural changes brought on by the Arab Spring also prompted the UAE and Saudi Arabia to develop foreign policies based on external security concerns, as well as the desire to expand regional power and influence, which they perceive as essential to their regime survival. Regime legitimacy can be derived from a powerful regional position, and thus external assertiveness was used also to boost the domestic power base in both countries. The need to reposition themselves as regional powers in the context of a changing regional order cannot be overlooked, as forces emanating from the external as well as internal environment

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provide threats or opportunities in terms of securing regime legitimacy. Here 'omnibalancing' becomes of relevance, and can help explain why seemingly contradictory policies are often pursued in terms of ideological preferences coexisting with regional realities.

In Saudi Arabia, all threats are interpreted through the context of its regional Cold War with Iran, and the fear of its growing regional influence. After the US intervention in Iraq in 2003, Iran was able to rise to a powerful position in the region, consolidating a Shiite government in Baghdad.⁴⁷ The onset of the Arab Spring was thus perceived by Saudi Arabia as another opportunity for Iran to expand its influence and destabilise the region.⁴⁸ The weakness and collapse of Arab states created a power vacuum for political influence, drawing in actors such as Iran and Turkey, and the conflict for geopolitical hegemony of the region played out on these new

battlegrounds in proxy-wars through military, financial and ideological support.⁴⁹ Iran pushes for a security system in the Gulf that is free of any foreign involvement, and its pursuit of nuclear weapons is perceived as a threat to Saudi Arabia's ability to control the regional agenda.⁵⁰

Furthermore, Saudi Arabia fears both the military threat of greater Iranian influence and nuclear power, as well as the legitimacy it may gain as a regional hegemon through concessions to the United States on its regional program.⁵¹ It perceives growing Iranian military capabilities and influence in the region as possessing the potential to further influence the OPEC states, as well as the Shiite minority in Saudi Arabia itself.⁵² The dual importance of the ideological and historical rivalry between Saudi Arabia and Iran, as well as the competing geostrategic and political interests that have come to the fore since the Arab Spring, are essential in

understanding their more interventionist and assertive strategy throughout the Arab world.

While sectarianism is a key part of the Saudi-Iranian Cold War, it should be understood as a tool for regional influence in terms of framing threats for domestic audiences, and for their own political agendas. This is demonstrated by Saudi policy in Syria, which has become a key arena in the struggle between Iran and Saudi Arabia for regional hegemony.⁵³

As aforementioned, the vacuums created within collapsing states during the Arab Spring prompted groups to call on sectarian identities and external alliances in support for their own domestic conflicts.⁵⁴ Saudi Arabia's preoccupation with Syria is driven by its desire to roll back Iranian influence, who had been growing closer with the Assad regime since 2006, and by a fear that it would further expand its influence over Iraq

and Lebanon and therefore tilt the regional balance of power in its favour. Uprisings in Syria presented the Saudis with the opportunity to undermine Iranian influence and regain a key ally, and thus it has pursued an aggressive approach to remove the Assad regime, funding the opposition and launching military initiatives.⁵⁵ It has even been argued that Saudi Arabia sees the Syrian War and Iran's nuclear program as part of the same conflict, which demonstrates the wider relevance of the Iranian geopolitical threat.

In addition, the desire of Saudi Arabia to extend its strategic position in Lebanon and Iraq is, to an extent, behind its willingness to support Salafi jihadist organisations in bringing down the Syrian regime, which illustrates how ideological as well as traditional realist concerns co-exist.⁵⁶ In Yemen, too, the Saudi offensive against the Houthis was driven by its connection to Iran

rather than having only an identity component, as the Houthis actually practice Zaydism, a form of Shiite Islam, which is closer to Sunni Islam than Shiite Islam practiced in Iran.⁵⁷ Its desire to preserve its influence in its southern neighbour and maintain the drift between Sunnis and Shias is partially because it wants to prevent their joint political mobilisation against Saudi Arabia, and falling into the Iranian sphere of influence.⁵⁸

Finally, the proposal made by Saudi Arabia for Jordan and Morocco to join the GCC, as non-Gulf states, further shows it trying to build up strategic partnerships and alliances.⁵⁹ This illustrates how the importance of external security dilemmas and military concerns lead states to adopt policies and form alliances against perceived regional security threats that could challenge domestic legitimacy.⁶⁰

The Saudi-Emirati support for the coup in Egypt in 2013, in addition, which provided billions in aid to the new regime, needs to be understood in terms of its desire to prevent a further loss of power to Tehran. Saudi Arabia, in particular, had previously held an important regional relationship with Egypt, and the fall of Mubarak was a strategic loss that threatened to re-order the balance of power. As aforementioned, Morsi and the Muslim Brotherhood's policies threatened the domestic front of the UAE and Saudi Arabia in terms of ideology, but also held the potential to change regional alliances and give Iran greater clout in the region.⁶¹

In the UAE, a more militaristic as opposed to sectarian approach was taken to bolster its regional security, but was driven by a similar sense of threat to its influence in the region.⁶² The UAE also fears Iranian ambitions, and thus has prioritised security and defensive alliances to counter it.⁶³ They have placed greater emphasis on Emirati

national identity, introducing conscription of the youth, as well as increasing their strategic influence with a key military presence, most prominently in the Red Sea basin and the Horn of Africa.⁶⁴ In the context of a collapsed Middle East front line, including Libya, Egypt and Iraq, where it had been able to keep Iranian ambitions in check, as well as the rise of non-Arab states and non-state actors, the UAE felt it had to increase military interventions to protect its national security.⁶⁵ It has long been critical of Iran, after a series of territorial disputes, as well as their fear of its regional agenda in Syria, Lebanon, Iraq and Yemen after the Arab Spring, and most recently after the nuclear deal in 2015.⁶⁶ It has stood firmly with Saudi Arabia on the Iran issue, often within the framework of the GCC, as well as working closely with the United States.⁶⁷ A more assertive approach to Emirati foreign policy is developing as it emerges as a regional power with a military-heavy foreign

policy. Its increasing role in Africa, further, must to some extent be viewed as an arena in which the UAE are attempting to expand their power, and in turn, protect and promote regime security and legitimacy.

The UAE's role in Yemen, in particular, highlights its assertive and militaristic approach to foreign policy since the Arab Spring, which is intended to expand its legitimacy and security. It has led counter-insurgency operations, alongside Saudi Arabia, in "supporting the legitimate government in response to a request by the President of Yemen to provide necessary support to efforts to confront terrorism and extremism", and to counter what it sees as hegemonic Iranian actions.⁶⁸

The importance of its joint action alongside Saudi Arabia should be recognised, where the UAE says that any action against Saudi Arabia is also perceived as a threat to the

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UAE, which highlights a shift towards GCC-led governance.⁶⁹ This, to some extent, illustrates an attempt to define the regional future under Saudi-Emirati terms. The creation of coalitions in support of their vision for the region, and making it difficult for other countries to oppose it or create a counter-alliance, gives them the regional legitimacy to continue their controversial interventions, which have little regard for human rights. The UAE's presence in Aden, in particular, highlights how it is attempting to shape the power structure that will emerge after the conflict ends. However, its divergence from Saudi policy on its desire for the South of Yemen to become a separate state illustrates its independent desire for strategic influence, hoping to secure the strait between the Red Sea and the Gulf of Aden, which is a key maritime route.⁷⁰

The perception that external events might pose a threat to domestic legitimacy, as well as the opportunities presented to gain influence and strategic ground whilst simultaneously reducing risk, are driving UAE foreign policy. Yemen further demonstrates that the UAE is increasingly acting independently of Saudi Arabia, which shows how its own strategic interests are growing in importance, using external assertiveness as a source of legitimacy at home. This is evidenced most prominently with the UAE's recent withdrawal of troops from Yemen, out of a growing fear of the escalation of tensions with the US and Iran, highlighting its perceived vulnerability and need to protect its own troops.⁷¹

Another regional factor that led to a more assertive approach in the region after the Arab Spring was the loss of confidence in the guaranteed support of the United States. The reaction of the Obama Administration

to the ousting of Mubarak in Egypt was largely indifferent, and made both Saudi and Emirati leaders realise that the United States was not going to support the survival of authoritarian regimes in the Arab world.⁷² The perceived changes in the United States' policies, namely a shift towards the Asia-Pacific, and a desire to become less dependent on foreign sources of oil, worried the GCC states that the "oil for security" paradigm was being eroded.⁷³ This was further exacerbated with the nuclear agreement between the United States and Iran, which showed signs of greater cooperation. The uncertainty surrounding the direction of US politics in the midst of these regional challenges led the UAE and Saudi Arabia to pursue a more independent, security-oriented policy, with greater emphasis on GCC cooperation.⁷⁴

Their growing independence was evidenced by the UAE's role in the NATO-led

coalition in Libya in 2011, where it took on a leadership role, engaging in political, military, diplomatic and economic efforts to counter the Islamist security threat, and can be interpreted as an attempt to gain leverage over the wavering support of the US.⁷⁵ The UAE has increasingly pursued a more pragmatic and independent approach, and many have observed its bilateral efforts in Libya as a watershed moment, as it took place without American approval.⁷⁶ Obama's retreat and now Donald Trump's more unpredictable approach to the region has left the regional powers looking to fill the void left by this once confirmed ally, although there is no doubt that Trump's hostile approach to Iran is welcomed.

Finally, the assertive approach of the Saudi-Emirati axis towards Qatar also has its roots in geopolitics and the regional balance of power, which was further exacerbated by the Arab Spring. Since uprisings began in 2011,

Qatar has supported the rise of new groups and voices, including the Al-Jazeera TV network, and other growing political actors including the Muslim Brotherhood, while contrastingly, the UAE and Saudi Arabia moved to hold onto their autocratic rule.⁷⁷

These contrasting stances have led to competition between Saudi Arabia and the UAE and Qatar in various arenas, including Bahrain, Egypt, and Libya.⁷⁸ The boycott of Qatar, beginning in 2017, severed its relations with the Saudi-Emirati axis. This was further intended to send a message to Kuwait and Oman, who did not boycott them.⁷⁹

Qatar has long contested Saudi hegemony and directly competed against it, with the Arab Spring providing the opportunity to build its own networks, including the Muslim Brotherhood as well as young online activists. While this competition is often framed in terms of Qatar's support for

the Muslim Brotherhood and Islamist extremists, this acts as an excuse for a general fight against democratic challenges in the region.

This is evidenced through the UAE and Saudi Arabia's strong crackdown not only on Islamists, but all other forms of activism and civil society. Their rivalry is evident in, for example, Libya and Syria, where both sides are pouring in money, arms and media support to compete for the role of regional hegemon.⁸⁰ It is thus evident that the Arab Spring provided opportunities for Qatar to bolster its regional influence. This has been perceived by both Saudi Arabia and the UAE as threats to their leadership both regionally and domestically, and thus it has embarked on a more assertive foreign policy towards the country since.

Conclusion

In conclusion, the assertive foreign policies adopted by the UAE and Saudi Arabia since the Arab Spring can be explained as based on their interpretation of risks to their respective regimes' legitimacy and security.

The fluid and unstable environment created by the Arab Spring explains the often unpredictable nature of their foreign policies, balancing a conception of coexisting threats and opportunities emanating from both domestic and regional fronts; sometimes based on strategic, geopolitical concerns, while at others based on threats to their ideological foundations. Again, it is evident that both realist and constructivist interpretations need to be brought together in explaining their foreign policy action. In Saudi Arabia, the protection of its legitimacy was driven largely by the context of the 'Arab Cold War' with Iran, which possesses both ideological and geopolitical components, and was largely pursued through the

reinvigoration of its sectarian discourse. The Saudi characterisation of Shia as Iranian loyalists has led them to instigate the Sunni-Shiite conflict as a reaction to the growing influence of Iran since 2003.

In the UAE, a more militaristic approach was taken, garnering support not only domestically against the rise of regional Islamist threats, but also taking advantage of the opportunity to assert itself as an important regional power. While Saudi Arabia and the UAE have at times cooperated as a unified front at the regional level, their differing interest in Yemen further illustrate the extent to which they are driven by domestic legitimacy and strategic motives, shifting alliances and policies based on changing external realities.

However, their assertive policies ultimately boil down to the basis of legitimate rule that grounds the ruling families' power, which requires both the acceptance of its domestic

ideological orientation as legitimate, as well as regional prestige. Regional prestige boosts this sense of legitimacy in terms of allowing a particular regime to establish itself as powerful in the eyes of other leaders as well as domestic citizens, whilst also maintaining national security.

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2

Economic Diversification among the Gulf States and the Challenges of Reducing Volatility

Stanislav Kudryashov



Bird's-eye view of Riyadh (Photo by Stijn te Strake on Unsplash)

It is no exaggeration to state that Gulf the economic composition of the majority of Gulf states past and present has been characterised by the dominance of hydro-

carbon related industries. Taking the examples of Kuwait, Oman, Qatar, Saudi Arabia and the UAE, the average regional contribution of natural resource extraction to export composition constitutes approximately 80.2% of total export value. This figure rises to 87% when accounting for 'vertical diversification' industries, that is to say, those which convert natural resources into greater value added goods, such as petrochemicals.¹ However, oil is a finite resource and consequently creates an economic imperative towards the eventual pursuit of economic diversification, particularly so in a context of such an extraordinary extent of hydro-carbon extraction dependence.

Economic diversification has been defined as the reduction of dependence on a limited number of export commodities. The finite nature of oil reserves aside; motivation towards pursuing economic diversification

has been rooted in several factors, namely the exposure of the economy to commodity price shocks, the increasing failure of Gulf states to provide adequate employment opportunities and satisfactory social welfare provisions for its citizens. Facing increasing demographic pressures from an emergent 'youth' bulge, coupled with a skills-mismatch and declining job opportunities within a scope-context of declining natural resources and with an eye to their ultimately finite nature, diversification imperatives have gained a broad regional acceptance. The process of diversification is now seen as a key stepping stone to the achievement of several objectives namely "stabilising earnings, expanding revenues and retaining or increasing value-added."²

In identifying challenges to economic diversification, a useful recourse is presented by national economic 'visions', that is to say economic programmes

outlining the foundations on which states will develop diversification policies/strategies. A recurrent focus within such plans been the need to develop human resources within a 'knowledge economy', invigorate private sector growth, as well as an acknowledgement of the necessity of a leading role for the state in short term development. The challenges which may be discerned from such an approach represent the prevalence of the 'resource curse', 'limited' human capital and an inadequate education systems at primary, secondary and tertiary levels, the weakness of intra-regional trade, poor economic management and the existence of the 'rentier bargain'. Consequently, they will represent the focus of this essay. How these dynamics interact will be outlined through the examples of Saudi Arabia and the Emirate of Dubai.

This essay seeks to add to the existing literature on economic diversification by

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establishing a comparative context between diverging diversification initiatives under conditions of a substantive disparity in oil reserves. It aims to identify the limitations of oil-based and predominantly state-led initiatives of Saudi Arabia and compare the efficacy of such strategies to those pursued by Dubai which has advanced economic diversification under conditions of an absence of substantive oil reserves. However, it will also seek to identify and explain the salience of traditional constraints on economic diversification, namely the 'rentier bargain'. It is my contention that while Saudi Arabia continues to exhibit many of the problems associated with rentier bargains and the resource curse, Dubai is less susceptible and more diversified, indeed it is questionable to what extent the resource curse continues to apply to Dubai in general. The value of this will be in demonstrating how liberalisation and diversification may not resolve the issues behind diversification

efforts, namely reducing volatility. Instead it will be shown that Dubai in extracting itself from a reliance on oil has instead subjected itself to reliance on other volatile sectors, namely construction, finance and the unreliability of sustained foreign direct investment inflows. Thus, two 'scope' difficulties will be identified, firstly those associated with a state in the midst of a comparatively unsuccessful diversification process and secondly the potential risks of diversification in a state which has already successfully broadened its economic base.

Economic Diversification and the 'Rentier Bargain'

In analysing the challenges faced by Gulf state economic diversification the natural point of departure is represented by the 'rentier bargain', that is to say a socio-economic system characterised by the relative 'detachment' of the state from

society founded upon the re-allocation of oil wealth and state resources to society through two primary means: I) direct economic appeasement; II) the provision of state resources on a broadly clientalistic basis through a network of 'brokers.'³ While rentier state theory may no longer be applicable in its totality, it retains descriptive value in conceptualising an aspect of Gulf political systems that is especially relevant in the economic dimension with ensuing implications for employment, taxation and resource-funded (and hence state-led) development initiatives, namely infrastructure development and industrial capacity expansion.⁴

Firstly, the allocative nature of the 'rentier' state necessarily poses problems for state-led diversification initiatives by forcing a binary-decision making process in which resource-revenue streams must be split between major development projects crucial

to diversification, such as transport infrastructure or heavy-industry manufacturing, and provisions to society which, as shall be noted, may prove to be substantial. Consequently, rentierism can be conceptualised as a brake on state-led development initiatives by diverting revenue streams away from long-term investment into short-term social welfare appeasement programmes. With regards to taxation, the legacy of rentierism has produced societies characterised by the absence of direct taxation. Indeed, attempts to impose direct-tax structures on GCC countries have been repeatedly met with opposition.⁵ Instead, stealth taxes have been gradually implemented in the form of excise duties, property taxes and tariffs. However, even such taxes are becoming increasingly unsustainable as forces of globalisation and free trade agreements drive the reduction of tariffs. In this case, rentierism can be best seen as restricting potential sources of

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government revenue which will prove necessary to develop if the state wishes to pursue diversification programmes in a context of volatile commodity prices while retaining domestic welfare provision services.

Any approach to taxation reform in the Gulf will necessarily have to be gradual and will have to account for cultural attitudes. That is to say, firstly, the entrenchment of the rentier bargain and its associated social benefits (stemming primarily from an absence of progressive taxation coupled with generous public sector employment opportunities) into Gulf state society as well as the possibility of provoking societal strife in a 'cultural space' where a delicate balance must be maintained between the interests of different tribal lineages;⁶ a point that shall be expanded upon later. Indeed, the imperative to transition away from an 'allocative' to an 'extractive' state because

of ballooning government debt and persistent budget deficits as a result of growing expenditure⁷ may act to undermine the rentier bargain as a whole.

Furthermore, rentierism distorts labour markets through the role played by 'brokers'. While brokers may be high level government officials, in this case a more salient role is played by mid-low level bureaucrats or even nationals who have preferential access to the provision of work visas or who through 'cover-businesses' or visa sponsorship schemes act as avenues for employment rights in Gulf states for expatriates. Indeed, as Hertog notes, "all Gulf governments have given local businesses and nationals in general channels of privileged access that have turned large swathes of local society into part-time or full time brokers of state resources". In particular, he notes the salience of brokerage to the "trade in visas and expatriate labour."⁸ Labour market restrictions

coupled with the relative inaccessibility of the state have acted to produce a market place for visas which has been estimated to be worth billions annually.⁹ Such a process acts to effectively undermine initiatives aimed at creating jobs for nationals within the private sector by sustaining a steady stream of expatriate labour while producing yet another source of 'rent' income which may contribute to unemployment trends among the national workforce.

On the whole, the rentier bargain's purpose of providing preferential conditions for nationals has posed substantial difficulties in terms of legislation. Until recently, many GCC states did not permit foreign ownership of companies, some states have required extensive licensing procedures and the need to find a regional 'sponsor' with whom to establish a business.¹⁰ While improvements have certainly been made with the introduction of 'free trade areas' and

regulatory 'streamlining' in certain areas, such as Dubai's property market, a lack of legal clarification on the status of foreigners and the demands of states that their nationals take a share of investments lessen the appeal of Gulf monarchies as targets for FDI inflows.¹¹

Furthermore, the process of sustaining the rentier bargain by appeasing the national population may partially account for the absence of monetary policy regionally. Most GCC states maintain currency pegs in order to ensure firstly macro-economic stability, but secondly to maintain an inflow of cheap imports to sustain consumption habits.¹² However, this has led to several side-effects which may act to dampen efforts at economic diversification. Firstly, the absence of a monetary policy makes diversification more, not less difficult, as it means that states are unable to devalue national currencies to boost export

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competitiveness. Indeed, this is doubly problematic within the GCC region where currency valuations are already high with 3 out of the top 10 strongest currencies globally being those of Gulf states.¹³ The maintenance of benign conditions for imported goods contributes to a phenomenon termed ‘chronic over-consumption’¹⁴ under which Gulf states have seen a drastic increase in imports relative to non-oil exports which has acted to expand current account deficits with consequent repercussions for national growth rates.

Labour Force Nationalisation and the Private Sector

The decline of oil/gas revenues has established labour force nationalisation as a key economic imperative. As oil resources are progressively exhausted, an economic

transition into alternate sectors of employment will be necessary. To this end, the private sector can act as both a source of diversification as it encompasses sectors including finance, hospitality, insurance and can provide employment opportunities for a labour force that is disproportionately young. In pursuing economic diversification national plans have consistently emphasised a need to develop private sector growth with an eye towards its eventual role in the provision of employment opportunities for Gulf nationals which the state is increasingly struggling to provide.¹⁵ Some estimates suggest that around 80 to 100 million jobs will need to be created to provide employment in conditions of both abnormally high inward migration and high national birth rates.¹⁶ Indeed, average net migration rates for the Gulf monarchies equates to 4.9 per 1000 people, but rising as high as 14.6 in the case of Qatar.¹⁷

The implications of this become evident in international comparisons, for example the net migration rate for the UK is 2.5.¹⁸ However, as a consequence of both the rentier bargain and the resource curse a skewing of the GCC labour market has emerged with the majority of nationals concentrated in public sector employment with private sector employment levels dependent on a flow of migrant labour with the long-term nature of this trend has resulting in the ‘entrenchment’ of this phenomenon.¹⁹ Furthermore, the generation of private sector employment faces a two-pronged dilemma consisting of attitudinal and economic factors. Economic policymaking has compounded the difficulty of invigorating the private sector as an engine of employment and diversification by raising substantially the costs of employing nationals. Such policies have taken the form of quotas, minimum wage laws, increased holiday provisions, special pension funds,

threats to withhold government contracts, even direct bans on the employment of non-nationals within certain sectors.²⁰

Such an approach has been aimed at increasing the appeal of the private sector to Gulf nationals who typically see private sector employment as an unappealing prospect due to substantial wage differentials between the private and public sectors. However, it has raised the costs of non-compliance for employers. Substantial Gulf-wide wage differentials can be noted between the public and private sectors, furthermore public employees enjoy greater job-related benefits such as paid holiday leave.²¹

Such an approach, however, has failed to account for three dynamics. Firstly, it has failed to acknowledge that increasing the appeal to nationals implies raising employment and firing costs thus placing nationals at a comparative disadvantage

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relative to a readily available pool of cheap labour. Secondly, such an approach has not accounted for the skills-set requirements for private-sector employment. Indeed, it has been widely noted ²² that Gulf state education systems tend to be inadequate at primary, secondary and tertiary levels. In addition, Gulf nationals suffer from skills shortages in management, mechanical engineering, industrial engineering and technology related sectors while being over-qualified in terms of humanities degrees.²³ Consequently, there has developed a mismatch between the skills possessed by nationals and those demanded by private sector employers, in conditions where a readily available pool of skilled and cheap foreign labour exists.

The associated implications of this issue may be more profound than simple questions of sustaining the rentier bargain, lagging skills accumulation may ultimately

lead to economic growth sustained by constantly increasing oil revenue, not from productivity growth.²⁴ As shall be noted later, there is evidence that productivity growth in certain states has been negative. With regards to pursuing vertical diversification initiatives, which generally involves transitioning from primary through to tertiary sectors of production, lagging skills bases may act as yet another impediment.²⁵ Finally, employers are disinclined to hire nationals on the basis of their attitudes towards work with absenteeism and late arrivals at work being frequently reported. It is therefore unremarkable that labour-force nationalisation drives have yielded limited results with progress generally only being reported in the banking, insurance and utilities sectors.²⁶

Impediments to Diversification: the

‘Resource Curse’

One further challenge of diversification worth consideration is that of the ‘resource curse’, that is to say the conditions under which oil revenues begin to “crowd out other economic activities”.²⁷ As contended by Karl, the consequences of oil based development are predominantly negative. Primarily, this stems from three inter-linked issues, firstly is that of oil price volatility. Nations which are predominantly dependent on state-led diversification initiatives require a steady stream of oil revenue in order to continue funding large-scale infrastructure or industrial projects. Sudden changes in income streams may de-rail the construction of factories, railways, airports and the like. For example, between 1981 and 2001 Saudi Arabia GDP per capita fell from a high of 28,600 to 6,800.²⁸ Such a rapid collapse in GDP produced multiple dilemmas, states may suspend planned projects in order to

maintain budgetary balance, they may be forced to implement taxes, or to cut social spending.

As the latter two propositions would serve to critically undermine the rentier bargain, it is more likely that sustained deficits will be run instead with reciprocal implication for regional macro-economic stability. Further issues can be seen to stem from ‘Dutch disease’ related issues under which the oil sector increases the exchange rates of currencies decreasing export competitiveness. This phenomenon is caused primarily by an inflow of foreign currency, centred predominantly in the energy sector. The process of currency conversion from FDI inflows into oil-producing states’ domestic currencies causes an appreciation in their value producing the corresponding decline in export competitiveness.²⁹

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Oil-based development strategies may also act to make the accumulation of skills more difficult as oil companies may prefer to import skilled labour from abroad thus depriving locals of the ability to develop the requisite skills to work in oil related industries. Indeed, economic growth becomes more likely to be the product of the recycling of petrodollars than from sustained productivity growth. Similarly, the profitability of oil has in certain cases served to divert foreign direct investment into oil-related activities depriving other sectors of the economy of the potential to attract international investment and thus lessen their reliance on the state and petro-dollar recycling. As has been noted in the literature, despite substantial FDI inflows the Gulf monarchies have not seen a concurrent improvement in export quality. Furthermore, oil related activities tend to have only limited opportunities for vertical or horizontal integration and few backwards

linkages with the rest of the economy.³⁰ With the exception of petro-chemical and polymer production it is difficult to identify industries which may be developed as a ‘spin-off’ of oil production. Such conditions would appear to lend themselves more to export concentration than to diversification. As shall be demonstrated, while some export diversification has occurred when compared with countries of comparable levels of socio-economic development Gulf monarchies have underperformed, some have stagnated in measures of export sophistication and others still have seen export sophistication and quality decline, exposure to oil volatility rise and export diversification fall.³¹ Indeed, the prevalence of oil as the primary export commodity regionally has resulted in a lack of export complementarities, this has served to limit the potential for intra-regional trade which currently accounts for a meagre 7.1% of foreign trade for GCC countries.³²

One final factor worth consideration is that of international competition and domestic market sizes. Hvidt contends that import substitution policies could not possibly work within GCC states due to a combination of limited trade opportunities regionally and due to the small size of domestic markets.³³ Consequently, Gulf state exporters have been unable to foster nascent industries through the application of tariffs but have been forced to “attain international competitiveness from the outset,”³⁴ as such it has proven impossible to attain the advantages associated with ‘economies of scale’. However, it is noteworthy in this respect that there does not appear to be a relationship between the size of a Gulf state’s domestic market and its export potential. While the UAE represents a comparatively small state, it has achieved greater rates of goods sophistication, quality and diversification than the much larger country of Saudi Arabia.³⁵

Broadening the Tax Base in Saudi Arabia and the UAE

Having outlined the theoretical framework an examination of its effects at a national level will be salient. In this respect a comparison shall be made between Saudi Arabia and the Emirate of Dubai, one of the seven Emirates of the UAE. To a large extent both have suffered from the challenges outlined in the literature but within different contexts. Whereas Saudi Arabia is resource rich, Dubai has essentially exhausted existing oil reserves.

The first area of analysis will be taxation. As has been noted, to strengthen diversification efforts an appropriate tax framework may contribute positively to growth³⁶ by smoothing over the negative fiscal effects of oil price shocks, however in the context of

both Saudi Arabia and the UAE efforts geared at the introduction of direct taxation have proven to be ineffectual. Saudi Arabia's efforts at the introduction of income taxes on foreign nationals were forced into policy-reversals in 1988, 2002 and in 2003 when the Shura Council declared it "inappropriate to levy taxes on non-Saudis."³⁷ Furthermore, the possibility of income tax introductions spurred inter-tribal divisions. Specifically, Harrison notes that a prospective 1988 income tax proposal provoked opposition from the Anazah and Shammar tribes, while the Sudairi tribe proved reluctant to assume a position on the issue. The difficulties arising from this issue stemmed from the differing tribal affiliations of the Royal Family with the then King Fahd belonging to the Sudairi tribe alongside several princes whereas the then crown prince Abdullah being maternally linked to the Shammar tribe; the resulting tensions ultimately produces a declaration of the

incompatibility of Islamic traditions with taxation.³⁸

Rather than providing an impetus for the broadening of tax bases, an economic necessity as contended by the IMF, the direction of travel has instead been towards regional tax competition. In 2004, Saudi Arabia cut taxes for foreign companies by 10%, after which all Gulf states appeared to follow suit.³⁹ In competition for inwards FDI coupled with a looming post-oil future, the rentier bargain's limitations on taxation appear highly salient. An inability to smooth over fiscal deficits has led to rising government debt and six consecutive years of fiscal deficit following oil price collapses.⁴⁰ Similar issues pertain to the UAE, which has been forced it into an implementation of VAT as a response firstly to four years of budget deficits⁴¹ and secondly to account for the nation's overreliance on excise duties which

comprised nearly 23.1% of total revenue. Regional tax competition may thus prove to be a substantial difficulty concerning economic diversification moving forward. It may exacerbate rather than resolve problems associated with cyclical volatility, while at present both states run comparatively small budget deficits relative to regional neighbours, the potential for declines in revenue and continued tax competition may ultimately culminate in a fiscal crisis.

The Shortcomings of Labour Nationalisation in Saudi Arabia and the UAE

With respect to employment of nationals both ‘Saudisation’ and Emiratisation programmes have proven to be inadequate. Saudi Arabia’s population ‘structure’ is heavily skewed, those aged between 0-14 represent 26.1% of the population, those

aged between 15-24 represent 18.57 while those aged 25-54 represent 46%. Furthermore, labour trends within Saudi Arabia appear to suggest a skewing of the labour force with growth primarily concentrated in services rather than industry, as has been noted there are more maids and personal drivers than the “educators, medical doctors, engineers and professionals.”⁴² More troubling than this is the absence of an integrated approach towards the creation of employment provisions for Saudi nationals based on cooperation between employers, the government and relevant departments. Consequently, employment policies have been implemented in an ad hoc manner, poorly thought through and have ultimately proven to be counterproductive. Demographic data reveals that 88.4% of private sector employees are expatriate workers. In accordance with the literature, there appears to exist the same attitudinal

disinclination amongst nationals towards private sector work as has been noted regionally; rooted in lower wages and the lack of preferential in-job benefits comparative to public sector employment, as well as an attitudinal disinclination towards low-pay/status employment.⁴³ The aforementioned two-way employment dynamic is also confirmed in practice; that is to say Saudi nationals do not wish to be employed within the private sector while it in turn does not seek to employ nationals.

In response to the skills mismatch of its population and in the hopes of fostering future development in technological sectors the Saudi government produced a “Vision 2030” plan. In this plan, it stressed the importance of raising standards of science and technical education, investment, privatising state assets and fiscal stability. Pursuant to the goal of resolving the aforementioned skills mismatch a proportion of the plan was devoted to the development

of Human Capital focusing on “education, rehabilitation and training programmes that keep abreast of modern times and requirements.”⁴⁴ Despite the publication of this plan no coherent strategy has yet emerged that would facilitate translating this into practice. Two main challenges can be discerned. Firstly, achieving the requisite levels of investment needed to reach growth rates outlined in the plan has been described as “near impossible”,⁴⁵ barring a substantial increase in the price of oil. The second appears to be rooted in the inadequacy of the Saudi Arabian education system and in the relative absence of Human Resource Development within the private sector.

As noted by Achoui, studies have repeatedly shown that only approximately 63.5% of Saudi companies had human resource management structure, that training where it was provided was on the job and ad hoc. In response to this, a Human Resources

Development fund was established alongside technical colleges. The aim of this was to provide financial inducement to companies to provide on the job training by sharing the costs of such programmes. However, such policies have had minimal impact, with the private sector still exhibiting a tendency to employ expatriate labour over Saudi nationals. Some sectors managed to reach Saudisation levels of only 2%, while goals of 30% were set.⁴⁶

A largely similar situation exists in the UAE. Indeed, the extent of the problem is clearly visible in economic data, for example between 2002 and 2016 UAE productivity growth averaged -0.97%, it fell by 16.4% in 2007 and did not grow at any point between 2004 and 2010.⁴⁷ Such dismal statistics are perhaps a reflection of the UAE's extraordinary rates of net migration which currently stand at 10.5 per 1000 people⁴⁸ as well as drastic rates of population growth

which stood at 4% as of 2008.⁴⁹ Emiratisation policies have followed essentially the same prescriptions as those of Saudisation-the selective targeting of industries, quota systems and financial inducements.⁵⁰

Once again, the difficulties appear to stem from inadequacies within the education sector with tertiary sector budgets not seeing any increase since 1996, per student financial support has fallen by 20%. The results of this have been predictable. Focusing on Dubai, while most jobs in Dubai have been created in the private sector, the percentage of nationals employed within it remains at 1% and 35,000 now face involuntary employment.⁵¹ Indeed, as has been reported, two thirds of UAE nationals continue to see the government as the primary source of employment with wage differentials and employment conditions continuing to represent major disincentives

towards a pursuit of private sector employment.⁵²

Perhaps most interestingly, the proliferation of higher education institutions in Dubai has had little impact on preparing future generations for the challenges of a post-oil economy. It can be argued that these institutions have actually damaged the employment prospects of nationals by diluting their qualifications. In Dubai, it is now nearly impossible to achieve qualifications in Arabic, with only one HE institution offering courses in Arabic. Instead most courses on offer have been in English, perhaps with the aim of creating a labour force that is more adept at working with foreign companies. What has occurred instead is a bizarre situation in which Dubai nationals have seen their abilities to communicate in Arabic decline, but without establishing a coherent grasp on the English language.⁵³ This problem carries profound

implications in terms of establishing Dubai as a regional economic hub, which implies mastery of the Arabic language as a prerequisite in terms of increasing the employability of the nationals.

Several authors have drawn attention to this issue particularly in the context of finding employment in bi-lingual jobs. Dubai nationals are thus pulled between two extremes. On the one hand, as noted by Swan,⁵⁴ many wish to retain their cultural roots whilst simultaneously attempting to adapt to the implications of economic liberalisation, that is to say the growth of English as the lingua franca of commerce regionally and globally. An attitudinal survey of students at Zayed University found a majority of students preferred to be taught in English with most citing the employment advantages conferred by the language. So problematic has the issue become that initiatives are planned to

implement Arabic competency tests as a prerequisite for university applications.⁵⁵

Observed through an economic lens this development can carry advantages, namely by providing an avenue for employment-seeking in the private sector provided by multinational corporations; a development which may partially lift the burden of employment provision from the state. However, barring an attitudinal shift towards private sector employment on the part of UAE nationals; the added-value of an English education is dubious. One potential future concern may nonetheless be discerned, as it is possible that the perceived cultural decline of Dubai may spur radical policy shifts, namely the reduction of migrant labour to ensure an Arab majority and restrictions on the use of the language.⁵⁶

This would carry profound economic implications, dealing substantial damage to the perceived openness of Dubai's economy

and reducing the appeal of inward investment and the relocation of corporations to Dubai. As a result of the aforementioned public-private sector distortion in terms of the employment of nationals, the fallout from a restriction of migrant inflows would be felt in terms of the internal structure of the economy. With the majority of private sector small and medium sized enterprises and their workforce's being constituted by migrant workers a restriction on the inflow of such workers, unless balanced by a concurrent attitudinal shift among Dubai nationals towards private sector employment, would likely result in an initial private sector contraction. Or at the very least, reduce the rate of its expansion substantially by making it impossible to find sufficient workers to pursue expansion strategies. However, it is impossible to assess the totality of such an economic fallout until immigration restriction are put into place.

An insight into the implications of the aforementioned skill-mismatches and declines in language competence can be assessed in terms of human capital. On the whole, neither Saudi Arabia nor the UAE performs particularly well with the UAE ranked 49th, below Russia and Kazakhstan, and Saudi Arabia 76th globally, below Mongolia, Vietnam and Mauritius.⁵⁷ Within the context of national-economic visions focusing on ‘knowledge economy’ development and transitioning into higher value-added industries, or indeed high-technology sectors, low human capital rankings, and surprisingly weak language competency may act as a significant brake on diversification efforts.

The Effects of the ‘Resource Curse’ and the Dubai-model

With regards to the resource curse, the effects of this are more evident in Saudi Arabia due to its substantial oil reserves and long-term oil horizons. While it has been noted that traditional ‘Dutch disease’ related issues do not apply as a result of large wage differentials between private sector workers and public sector employees it is still evident that the effects of the resource curse remain salient. Indeed, between 1990-2010 Saudi Arabia saw no improvements in export quality (export quality has declined since 1986) or diversification. Furthermore, ‘minerals’ continue to account for over 80% of total exports, minerals exports are also the lowest quality export produced by Saudi Arabia.⁵⁸ The retrenchment of oil as a primary driver of the economy can also be

seen in the raised exposure of the economy to ‘idiosyncratic sectoral volatility,’⁵⁹ while most GCC states saw their exposure to price shocks decrease. Since 1970, Saudi Arabia has experienced a progressive increase with its exposure to oil price volatility standing at the highest rate since 1985. The progressive retrenchment of oil as the dominant exporting good, and the reflection of this in volatility indicators, would appear to suggest that Saudi Arabia, unlike the UAE, remains trapped in resource-curse dynamics which continue to pose salient challenges for diversification.

In contrast, the ‘Dubai model’ can be seen to represent a rather different set of economic difficulties, as it illustrates how volatility can re-assert itself even in a post-oil environment, while in the UAE as a whole oil continues to account for over 50% of total exports. Dubai itself has exhausted its reserves and instead transitioned into a

model focused on real-estate, financial sector development, tourism, and trade. However, this has exposed its economic model to a rather different set of vulnerabilities. As noted by Davidson,⁶⁰ Dubai may have perhaps increased rather than decreased its exposure to external circumstances. In attracting foreign companies, Dubai has left itself at the mercy of changing external circumstances. In the event of a regional crisis, companies which reside in the free ports at Jebel Ali or other industrial zones may abandon the region as quickly as they arrived. This issue has in recent days become much more salient with rising US-Iranian tensions as Iran represents Dubai’s primary trading partner.⁶¹

Paradoxically, in its attempts to diversify away from oil Dubai has reinforced its vulnerability to cyclical shocks. A focus on luxury development drove a construction frenzy which culminated in a property glut

and an inevitable property price collapse in 2008. Following a brief recovery in 2014, Dubai property prices have entered into a period of sustained decline with prices per square meter declining from nearly \$4,400 in 2014 to under \$3,400 by 2019 in response to falling oil prices.⁶²

That Dubai's diversification drive has not resulted in securing itself against volatility can perhaps be best illustrated by the fact that following the 2008 property price collapse Dubai was forced into accepting a bail-out from Abu Dhabi in order to avoid a full-blown fiscal crisis. Finally, Dubai also represent perhaps the most extreme example of the side-effect of rentierism which has been termed 'chronic overconsumption'. As of 2008, Dubai possessed one of the smallest trade balances regionally with imports rising from \$2bn in 1970 to over \$23bn today.⁶³ It would therefore appear to be the case that in its pursuit of diversification and in particular

by opening the economy up to FDI which at times constituted over 25% of annual GDP.⁶⁴ Dubai has not reinforced itself against the issue of oil related volatility, while it may have largely survived its transition into a post-oil future it has in the process become dependent on persistent investment inflows, sustained property development, and domestic consumption. Indeed, sustained property development poses a particularly salient challenge. The construction of luxury real-estate is limited by geography. Dubai's coastline can accommodate only a fixed amount of property development projects. As noted by Davidson, apartments are already being built with views out onto construction sites or in other similarly unappealing locations; a situation which would dampen their appeal as an investment opportunity. In its economic transition, a strong case can be made that Dubai's policy-makers have

simply substituted one source of volatility for another.⁶⁵

Conclusion

On the whole, this essay has sought to present a coherent picture of the economic difficulties that pertain among Gulf states on firstly a regional level, that is to say in terms of general problems associated with resource-rich states within the Gulf region, namely a bloated public sector, the rentier bargain, resource-curse effects and exposure to price shocks. In doing so, it has identified numerous economic challenges stemming from an initial reliance on oil as the primary medium of economic development with consequent repercussions for state-society relations. It is my contention that it is precisely this scope-condition of 'rentierism' which continues to represent the main challenge to economic diversification initiatives. From thus, a connection can be drawn to several key challenges. These

include, the development of a disinclination among the national population towards private sector employment and a reliance on the state as the historic provider of employment opportunities.

This latter perception of the state as a provider of job opportunities has entrenched what may, perhaps crudely, be term an 'elite mentality' under which nationals have seen little need to develop the requisite skill sets for private sector employment or the high-technology industries of the future outlined in national economic visions. The implications of this are illustrated in the aforementioned 'over-qualification' of nationals in humanities subjects rather than engineering, mathematics or related scientific studies. Equally persistent has been the resource curse which has ensured that oil has remained the primary exporting good of countries in the region, indeed some states have seen the relevance of oil to their

economies increase, with resource abundant states employing revenue streams it into the establishment of heavy and light manufacturing industries. Thus, it can be contended that the very process of diversification is reliant on oil.

Secondly, this essay has illustrated how these effects play out within the case studies of Dubai and Saudi Arabia. It is my contention that the abundance of oil has ensured that the aforementioned factors retain a greater significance in Saudi Arabia than they do in Dubai, namely by acting as a brake on export diversification, and the entrenchment of an anti-tax sentiment among the national population. However, while Dubai has pursued diversification in conditions of declining, and ultimately insignificant, oil reserves its chosen economic model has not resolved the underlying difficulties that pushed states down the road of diversification in the first

place. Liberalisation of inward investment, the development of a financial sector and real-estate sector expansion have introduced a new form of volatility exposure and one which has manifested itself in recent years. Similar to the case of Saudi Arabia, Dubai has struggled to resolve attitudinal disinclinations towards private sector employment, nor create a better skills-match among its workforce. Consequently, taking into account the two cases, the challenges facing economic diversification in the region can be surmised as: the persistence of rentierism, the resource curse, the failure to properly develop human capital and in the particular case of Dubai the transition from one source to volatility to another.

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