

# Threats to Security and Stability in the Gulf and Their Impact on Economic Development

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# Outline

- Presenter opinions only!
- Framing questions
- Changing regional distribution of power
- Impact on regional security
- Impact on development



Man in the middle: UAE President Sheikh Khalifa Bin Zayed Al Nahyan



Regional rivals: Saudi King Abdullah and Iranian President Ahmadinejad



The GCC is today a global economic superpower



# Before We Start!

- The global financial crisis is accelerating a rebalancing of the global economic system.
- This rebalancing involves the immense transfer of wealth from west to east:
  - Security policies/strategic perceptions in West and East have not caught on or caught up!
- There is pain in the developed world, but developing states are worse off – the gap grows.
- The downturn only means the next price spike in energy will be even more dramatic.
  - Current downturn only ensures capacity and supply development will lag
- Markets will continue to deliver for the Gulf – if they are permitted to do so...



# Framing Questions and Issues

- State-based capitalism as a long-term model?
- How to secure security and maintain regime stability?
  - Will the future be like the past?
  - The Brits withdrew east of Suez in '71...
- Can ruling families keep pace with complex, alternative org structures, SWFs that wield influence of their own accord?
- Great Game II, or III...
  - Re-emergence of great-power friction and conflict in “militarization” of energy or other quests for security
- Mean reversion of market pricing; domestic politics; and perceptions of political leadership
- The competitive disadvantage: Little meaningful involvement by ½ the labor force in economic and political management structure.



# The Argument

- The regional balance of power is today characterized by a number of dangerous “asymmetries,” or imbalances.
- Decision-makers don’t grasp how dangerous the situation is.
- If the imbalances are not managed properly, instability follows.
- Development is hostage.



# What Do I Mean?

- Economic, military, and political dimensions of the regional balance are today not synchronized and are out of balance -- dangerously.
- This is not necessarily new, but conditions of today make ability of actors to address environment more uncertain.
- The environment creates circumstances for miscalculation by leaders

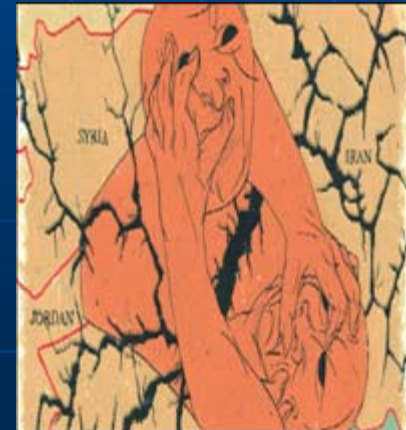


# The Four Levels of Regional Rivalry and Conflict

- Strategic-Global
  - Widespread dissatisfaction with US; Russia's re-emergence; Whither China?
- Regional/Interstate
  - GCC-Iran
  - US-Iran-Israel nuke
  - Arab-Israeli dispute
  - Fight over Iraq's future
  - Saudi-Gulf relations
  - Transnational: Shiite-Sunni; AQI
- Intra National
  - Battles between regional regimes and Islamists
  - Identity: Tribal-Sectarian
  - Politics: the gun or the ballot box?
  - Money: Criminal



Shrugging off US objections, Russia started delivery of 29 TOR M-1 Sims to Iran under a December 2005 \$700 million contract.



The battle for Iraq has regional, national and intra-national dimensions.



# Key Aspects of A Changed Regional Distribution of Power

- Iraq is no longer a strong state, but has potential. What regional role?
- Invigorated Iran-Syria-Hezbollah partnership
- US political influence problematic, but maybe Obama can restore credibility
  - Regional perception that US is locked irretrievably in Israeli orbit
- Saudi-GCC unified economic and political outlook, despite tactical differences
  - Saudi and Gulf states fear being dictated to by Tehran.
  - Gaza does not help domestically; regionally.
  - Support US presence, for now.



# The Military Domain

- AQ lost in Iraq – a good thing for all of us.
- Nuclear uncertainty
  - Iranian pursuit of nuclear deterrent pressures Gulf States.
  - Israeli nuclear hegemony is becoming more problematic for regional regimes.
- Potential escalation spiral if Iran is attacked.
- Ripple effects of unresolved Arab-Israeli dispute: How many more Gaza's will region stand for? Is patience limitless?
- US security blanket is becoming politically frayed for regional regimes – recent Saudi statements are important.



# Military Issues, Contd.

- US military is not the necessarily the “balancer” it used to be, but what other choice is there?
  - France and the UK? India? China?
- Gulf States are in a bind; they’ve spent a lot on arms, but remain militarily weak.
- Iran is weak militarily in conventional capabilities; but has invested in long-range missiles and chemical programs
- Non-state actors wield dangerous military capacities – courtesy of Iran, mostly.

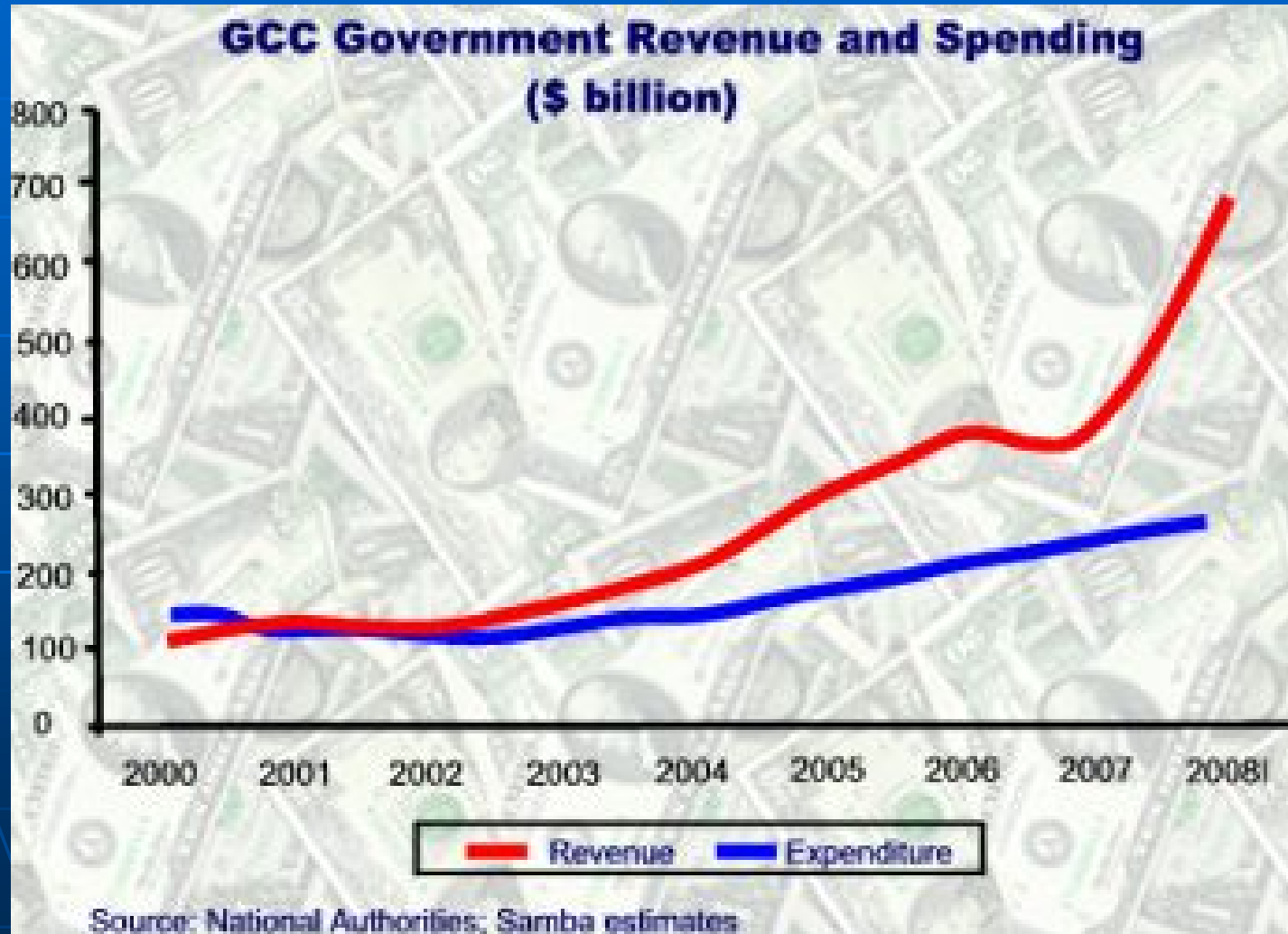


# While Bombs Went Off in Iraq, Markets Exploded in the Gulf

- GCC GDP has grown from est. \$406 billion in 2003 to \$712 billion in 2006; IMF est. that GDP reached \$800+ billion in 2008.
- GCC export earnings grew to \$327 billion annually 01-06, up from \$146B in preceding 5 years;
- HSBC est. \$1.6 trillion in Gulf oil revenues between 2002-2006; \$1 trillion invested at home; \$542 billion abroad
- Morgan Stanley estimates Gulf “above ground” wealth now at \$44 trillion, 3X+ current US GDP; almost as much as total world GDP (\$48 trillion in 06 – World Bank)
- An immense source of global liquidity – the GCC today is a global economic superpower.



# Revenues Have Soared...






# What About The Slowdown?

- The region confronts the global economic crisis from a position of strength
    - Economic growth slows to 3.6%; down from 5.7%
  - Regimes are reluctant to let us – and their citizens – know.
  - Kuwaiti FonMin said Arabs lost \$2.5 trillion in last 4 months; cancelled 60% of new projects.
  - GCC SWF's est. to lose 27% of portfolio value; the more aggressive lost more; the conservatives lost less!
  - Other anecdotal evidence.....
    - Construction workers in Dubai make about \$400 per month; an est. 3 million migrants in the Gulf; they send remittances back home.
    - Global remittances est. \$283 billion in 08; Gulf workers est. to account for 21% of global remittances to South Asia; 63% to Bangladesh, 52% for Pakistan. May decline by 10 percent this year.
    - Reports of thousands of abandoned cars at regional airports.
- Things are a lot worse elsewhere...



# Dimensions of the Growing GCC-Iran Economic Imbalance

	Population in millions	GDP/Per Capita	Unemployment Inflation	Oil Reserves/ Production./ Export	Natural Gas in billions of cubic meters	Foreign Direct Investment
Saudi Arabia 	23.7	\$347B 16.6K	11%+ 6.5%	260B+/ 10.6/ 8.5	241B	18.9B/ .753
Iran 	69.2	\$207B 8.4K	13-15% 17.2%est t 2007	136/ 4.1/ 2.4	971B	.901/ 386
GCC 	39.1	\$723B 20K+		460 res+ 17.7 prod. 13 exp.	1,363B SA, KU, TC,QA	30+\$B ? in 2007



# What About The Iranians?

- They are not in the business of being in business.
- They are playing traditional-style “politics”
- Talking tough to hide weakness?
- A command run economy with leaders that occasionally have to beat up students.
- They are spending what they take in – treading water; except now the ship is taking on water.

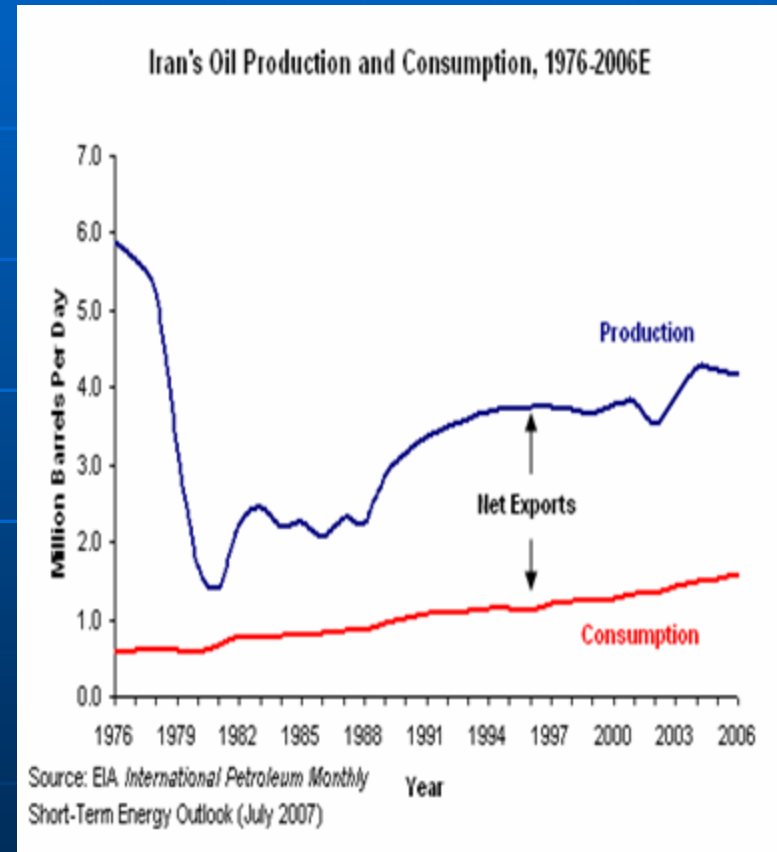


*Iranian President Ahmadinejad viewing the nuclear-capable Shahab-3, which can hit targets throughout the region.*



# Iran's Disadvantages

- They aren't getting richer as fast as GCC/Saudi.
- They are running faster and getting nowhere.
- Domestic consumption; 1.6 mbpd and natural gas
  - Most natural gas consumed internally
- Lack refining capacity; must import gasoline; \$15 billion investment.
  - Iran imported over 192,000 bbl/d of gasoline in 2006 (1/2 of demand) costing \$5 billion
  - Building 1 million cars per year
- Largest energy subsidy program in world 12% of GDP.
- Iran spends between \$20-30 billion annually on energy and commodity subsidies.
- They must create 700,000 jobs annually to keep pace.



# Things Don't Necessarily Get Better in Tehran

- Future energy production barely keeps pace with domestic demand; some suggest that oil exports could dry up by 2015.
  - Mature oil fields in decline
- IEA estimates that Iran's energy infrastructure will need \$165 billion to grow production through 2030.
- Energy price variations are a huge source of uncertainty for the state.
- There's no good plan for the rainy day.
- Iran badly lags the GCC in asset accumulation.



The crown jewel of Iran's energy reserves is the South Pars gas field, 62 miles off the coast in the Gulf. It contains 47% of Iran's natural gas reserves -- most of the production is consumed domestically.



# What Does This Mean?

- Political perceptions of strength are not necessarily tied to military and economic realities.
- Asymmetries of these imbalances create problems for regime leaders.
- What happens when Iranian leadership publicly admits that economic mismanagement, corruption and incompetence has doomed the revolution?
  - Rolling the iron dice of preventative war?
  - Or, create coercive environment with nukes to address strategic weakness relative to regional rivals?
- Gulf States must manage Iran's pursuit of regional hegemony.
- Gulf leadership must figure out how to translate its growing global economic leverage into political domain.



# Impact on Development

- The Gulf's future depends on the market.
  - Human, economic develop are tied to orderly, predictable market functions.
- The market needs stability.
- If these imbalances result in:
  - War
  - Retrenchment from globalization
  - Interruption of regional economic integration
- Things go off the rails for regional states.



# Conclusions

- We are in a dangerous period where several different global, strategic, and regional trends are intersecting.
- Regionally imbalanced distribution of power in political, military, and economic areas is not well understood – creates circumstances for miscalculation, misperception, etc.
- Development is hostage to these processes.



# Questions?

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