

# Shifting Plate Tectonics in the Gulf: Militarization or Globalization?

Presentation to  
**Danish High Level Security Policy Course 2008**

By

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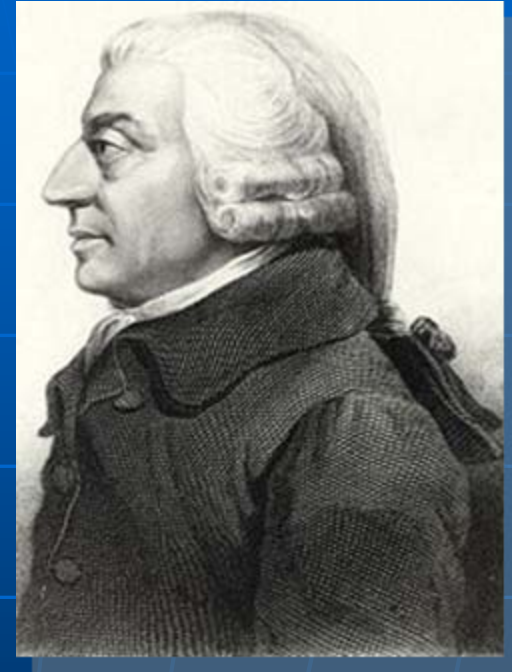
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# Presentation Themes and Discussion Questions

- What is the regional distribution of power in the Gulf in the aftermath of the Iraq invasion?
- The United States remains as the regional hegemon for the indefinite future.
- What are the prospects that regional disputes and rivalries will become more militarized than they already are?
- It's all about markets, baby.
- Who cares about politics?



Is Adam Smith the progenitor of modern-day globalization and foreign policy?

# The Argument

- Gulf interstate power structure is changing, but in more complicated ways than we think.
- Local, state, regional, and global dimensions to poles of “militarization” and “globalization”
- We don’t understand these interrelationships.
- The Saudi/GCC-Iran relationship sits squarely on the fault lines between these plates.
- These changes are affecting global plate tectonics.
- Holistic view of “security”



The Saudi/GCC-Iran relationships needs to be placed in the context of a dynamic and unpredictable strategic environment that has global, regional, national, and local dimensions.

# Terminology

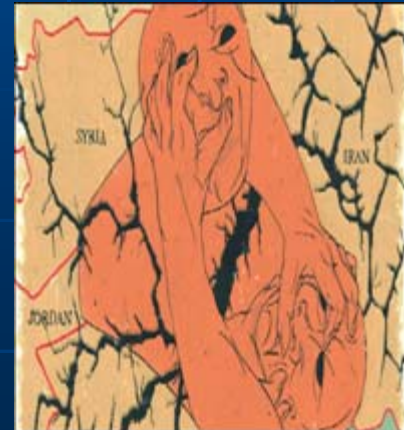
- **Globalization:** A set of processes leading to the integration of economic, cultural, political, and social systems across geographical boundaries; A global movement to increase the flow of goods, services, people, real capital, and money across national borders in order to create a more integrated and interdependent world economy.
- **Militarization:** act of assembling military forces and putting them into readiness for war; a process through which one group of humans works through in order to prepare to fight other human beings; employing the means and tools to impose force with armaments in an organized fashion either directly or indirectly in a given situation or set of circumstances against one or more adversaries.

# The Four Levels of Regional Rivalry and Conflict

- Strategic-Global
  - Russia
  - US is alone in the Gulf, at least for now
- Regional
  - Saudi-GCC
  - GCC-Iran
  - Fight over Iraq
  - Transnational: Shiite-Sunni; AQI
- National
  - Non-state groups looking for graduation day
- Intra-national
  - Identity: Tribal-Sectarian
  - Politics: Insurgency
  - 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.

# Strategic Challenges At Multiple Levels Throughout the Region



**Global Push to Reduce US Influence**

**AQ-Successor Spinoffs**

**Afghanistan Insurgency**

**Lebanon**

**Iraq Insurgency**

**The Wall/Gaza**

**Struggle for Regional Hegemony**

**Struggle for Public Opinion – Information and Perception**

**Regional Regimes and Islamists**

# Key Aspects of A Changed Political Distribution of Power

- Iraq is no longer a strong state
- Invigorated Iran-Syria-Hezbollah partnership
- US political influence on the wane
  - Locked irretrievably in Israeli orbit
- Saudi-GCC unified economic and political outlook, despite tactical differences
  - Who cares about politics when there's gold in them thar hills?
  - Play ball in Lebanon
  - Support US presence, for now.

What, Me Worry?



GCC states are focused on economic development – placing less emphasis on meaningful domestic political reform.

# While Americans and Iraqis Died; The Gulf States Got A Lot Richer

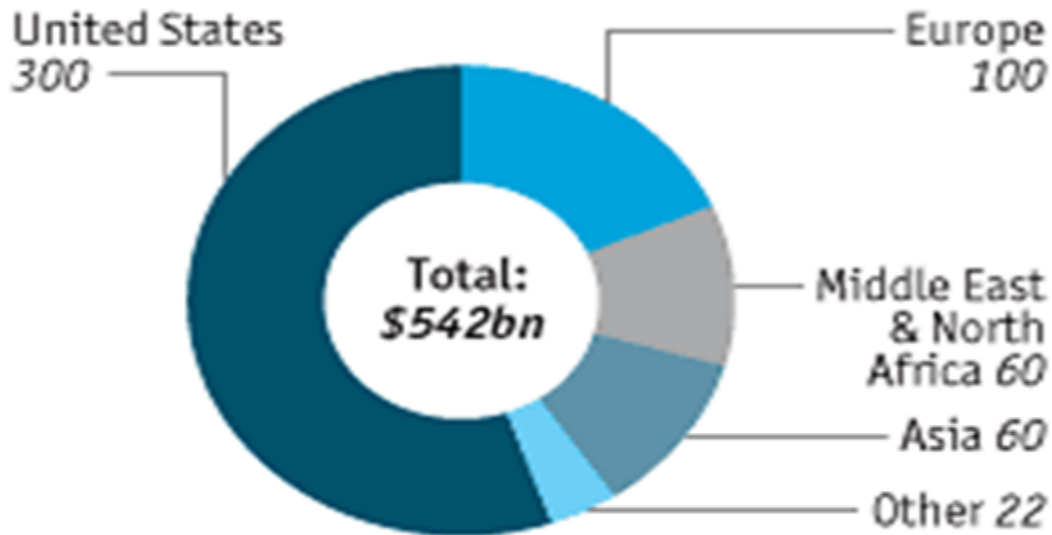
- GCC GDP has grown from est. \$406 billion in 2003 to \$712 billion in 2006; IMF est. that GDP could reach \$883 billion in 2008.
- GCC export earnings grew to \$327 billion annually 01-06, up from \$146B in preceding 5 years;
- HSBC est. \$1.6 trillion in Gulf oil revenues between 2002-2006; \$1 trillion 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)
- A growing appetite for M&A

# Where is the money going?

## Petrodollar pipelines

Distribution of capital outflows from countries of the Gulf Co-operation Council\*

\$bn, 2002-06



Source: Institute of International Finance

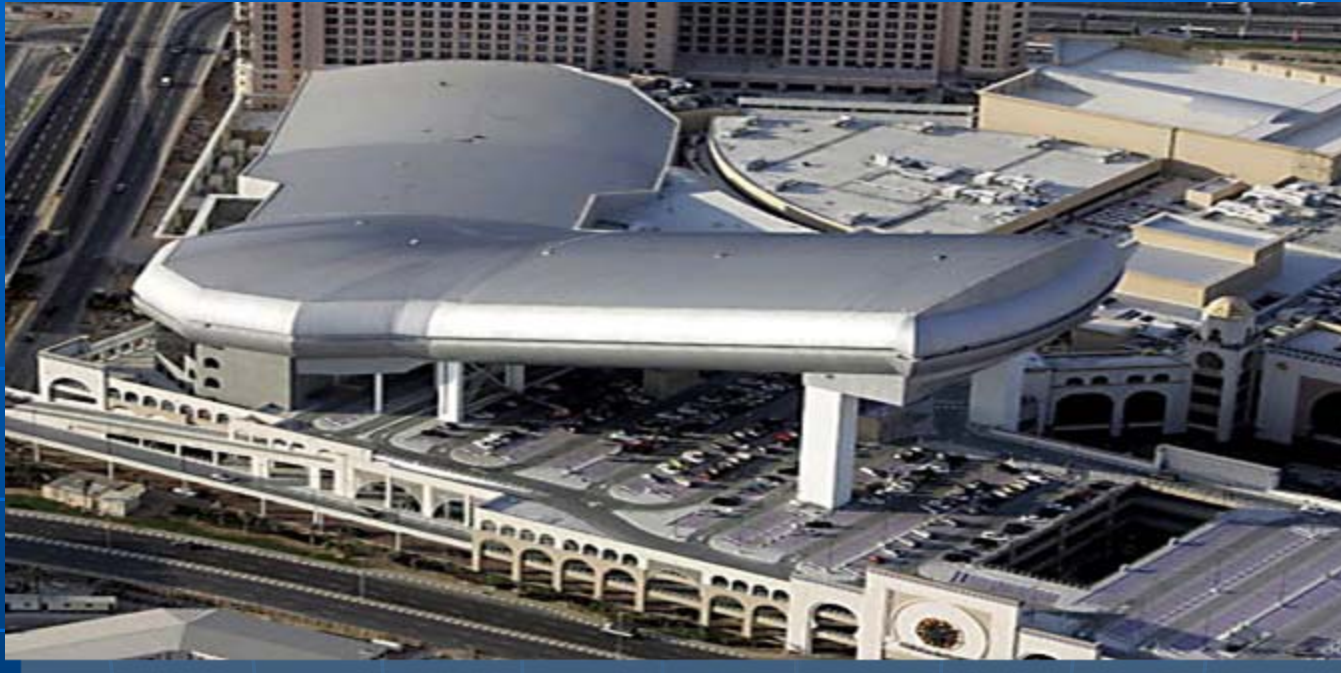
\*Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE

# What are they spending it on?

- Keeping it \$, for now.
- \$800 billion in domestic, non oil sector investments
- Recycling and investing petrodollars
  - Abu Dhabi Investment Authority bailout of Citigroup -- \$7.5 billion investment in Nov 2007 at 11% return.
  - Saudis buy 72 BAe Typhoon fighters for \$8.9 billion in Sep., 07
  - SABIC buys GE plastics in US for \$11.6 billion, May 07
  - DP World (Dubai) buys U.K. Oriental Steam Navigation Co. -- \$7 billion in 2006
  - Abu Dhabi, Dubai, Doha buy 19.9% of NASDAQ; 28% of London Stock Exchange; 10 % of Nordic exchange Setp 07; Abu Dhabi takes 7.5% stake in Carlyle Group for \$1.35 billion.
- GCC reaping est. \$100 billion annually on foreign investments alone.



# World's First Indoor Ski Slope



When one thinks of a vacation in Dubai, the first images that might to come to mind are sun and sand. Now add snow. Two feet of snow, topped with a daily layer of fresh powder, to be exact -- thanks to the system of 23 blast coolers and snow guns inside Ski Dubai. It might be 135 degrees Fahrenheit outdoors, but inside the 32,290 square-foot, \$275 million structure, visitors ski and snowboard. The heavily insulated facility also includes the world's largest indoor snow park, offering 9,842 square feet for sledding or bobsledding.

# Homes for the Rich and...Richer



Sheikh Mohammed bin Rashid announced on 5 of October 2004 that a third man-made Palm Island will be built on reclaimed land off the coast of Dubai's Deirah beach. The Palm Deira will be the largest of the three palm islands covering 14km (8.4 miles) in length and 8.5km (5.1 miles) in width. It will consist of residential property, marinas, shopping malls, sports facilities, and clubs. The residential area will be located on the 41 fronds and will contain 8,000 two-storey villas/town houses in three distinct styles - Premier Villas, Grand Villas and Vista Town Homes

# Deliverance II: The Saudi Vision of Their Future

- Six new cities to add \$150 billion to GDP by 2020; housing and commercial hubs
- Petrochemicals, steel, aluminum, fertilizer, education
- One million new jobs; housing for 5 million
- Cities to have 4X the area of Hong Kong; 3X population of Dubai; economic output equal to Singapore



# Not All that Glitters...

- Total population of GCC countries was approximately 37 million in 2006, 12 per cent of the Arab population of Middle East and North Africa.
- GCC economies in 2006 accounted for more than 55 per cent of the Arab world's \$1.25 trillion economy.
- In 1995 the GCC countries had an average per capita income of \$8500, which was 7.3 times larger than the per capital income of the remaining Arab countries.
- By 2006 the GCC per capita income rose to \$19300, which was 10.4 times larger than the average for other Arab countries.
- Per capita income in some GCC countries such as Qatar and the UAE were higher than many advanced Industrial countries in 2006.
- Inflation-adjusted per capita income of GCC countries 8.9 times larger than other Arab countries.

# What About Those Iranians?

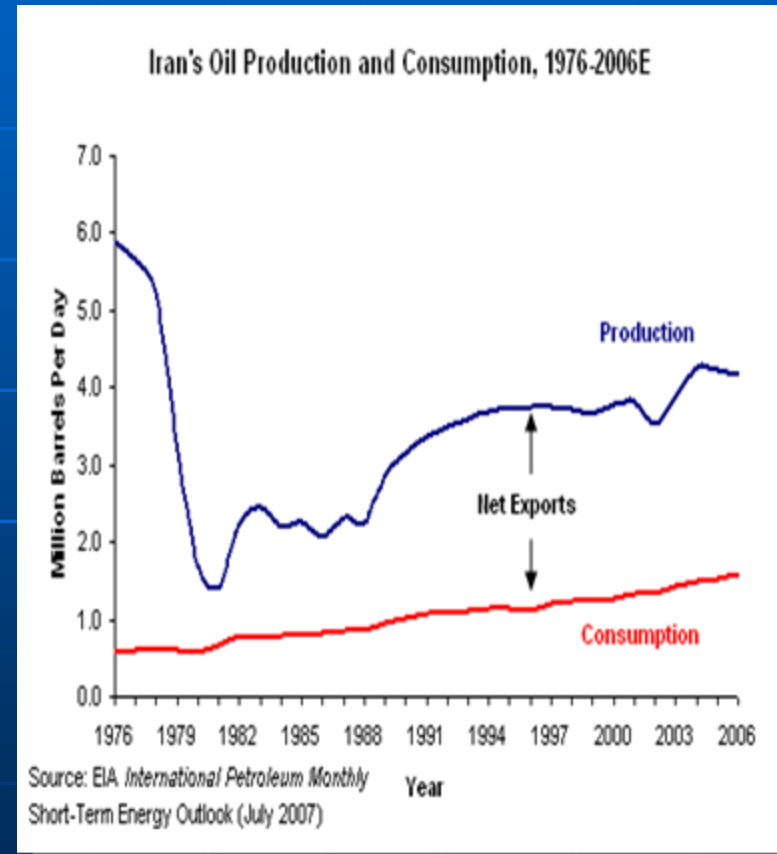
- They are not in the business of being in business.
- They are playing traditional-style “politics”
- Aren’t Iranians supposed to be more worldly?
- What’s up with the command run economy and those regime thugs beating up on students?
- They are spending what they take in – treading water



*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
- 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.

# Dimensions of the Growing GCC-Iran 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

# The Saudi-GCC Bow Wave Has Already Broken over Tehran...and us...sigh...

- Turns out those Gulf Arabs and Wahhabis are pretty good businessmen...
- By the end of 2007, GCC SWF's managing over \$1 trillion
- Add \$460 billion from SAMA
- Add private investments – portfolio over \$2 trillion –
- Asset accumulation of \$200 billion in 07
- The GCC is saving \$30 a barrel.
- GCC \$ holdings (\$1+ trillion) now more than Japan, almost as much as China.



Global financial powerhouse ADIA dominates the skyline along the corniche in Abu Dhabi.



SAGIA is managing an aggressive program designed to make Saudi Arabia one of the most competitive global economies.

# What Does This Mean?

- The GCC is a financial superpower
- Get over it – it gets worse...or better?
- After non-OPEC suppliers plateau in 2020, the Gulf becomes even more important to energy markets and gets progressively richer.
- Liquidity around the world, particularly in emerging markets will be driven by GCC and Asian SWF's
- SWF's could total \$12 trillion by 2015; may surpass foreign national reserves by 2011
- We better be nice to these actors.
- Do we really want them to be democracies after all?
- Aren't we all in favor of growth???
- When MBR calls, make sure to take it.



The face of the emerging global power elite in the Gulf is perhaps best represented by Mohamed bin Rashid al-Maktoum, who runs the city state of Dubai.

# And Now to the Dark Side...

- The faster they run in Tehran, the behinder they get.
- They are losing the competition if they have not lost already.
- Will they decide to pick a fight, somewhere, anywhere?
- Militarization is an option as a way to avoid surrender to the market.
  - The iron dice of preventative war.
  - Taking the wrong turn on nukes.



Pink Floyd's album – selling 40 million copies, made sarcastic reference to the power of money and consumerism over daily life – though the group didn't return money made from record sales...

# Will the Future Be Like the Past? Hmm...

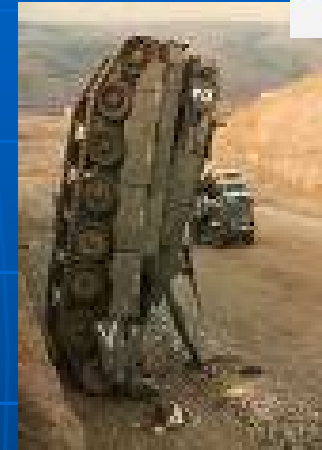
- Iran's continued embrace of militarization -- buildup of non-state actors in Lebanon, Iraq and Gaza



METIS-M Russian Crew-served ATGM



RPG-29 and destroyed Israeli vehicle

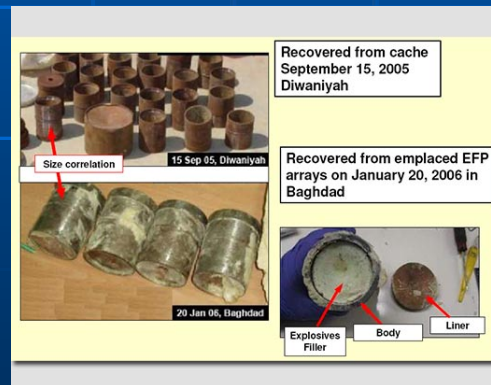


The SA-18 surface-to-air missile



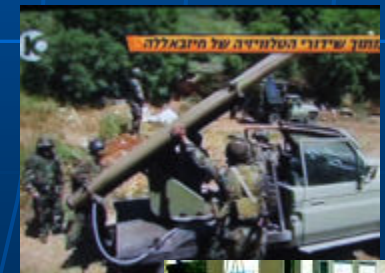
ISNA

Iran and Hezbollah leaders at one of their frequent confabs, this one in 2005.



Iranian-supplied EFPs from Iraq.

220mm rocket launcher



Mohajer UAV



C-802 Anti-Ship Missile

# It's Not a Cakewalk Either in Riyadh, But It's Easier With \$

- ARAMCO on track for 12.5mbpd by '09
- The perils of urbanization and population growth – 40+ million Saudis by 2025
  - Turning from familial, tribal societies to urban environment
- Social movements?
- Islamic radicalism – battle against AQ being won, right now.
- 11 million phone lines; 7.8 million new housing units by 2020
- 350-400K annual entrants into labor force
- 2.8% annual growth in municipal fresh water demand
- Can Saudi command economy deliver where Iranian one is failing?
- The global entrepot Gulf city states survive and thrive.



# The Battle for Iraq: Warlords, Jihadis, and A State?

- Intra-national battle that has tribal, sectarian dimensions.
- AQI may be the least of the problems.
- Iran-GCC rivalry or cooperation?
- Which alternative future?



A shopkeeper looked at his damaged store in Sadr City. The scale and intensity of the clashes in Baghdad kept many residents home. Schools and shops were closed in many neighborhoods and hundreds of checkpoints appeared; in some neighborhoods they were controlled by the government and in others by militia members. (NYT 1 April 2009)

# Globalization and Its Discontents

- Markets are outpacing capacity of governments to regulate.
- This imbalance can create big problems – including state failure. Meltdowns happen.
- Mukhabarat states have always been good at internal security, but can they regulate/police markets?
- The city states can cope more easily, but larger states like Iran and Saudi are problematic.

# Conclusions

- Regional plate tectonics are shifting after Iraq invasion.
- It's no longer just about oil – it's about flows.
- The GCC is a global economic superpower and promises to exercise increasing influence in world markets.
- We are blinded by the fog of the moment to the truly strategic dimension of these shifts.
- Iran is in a long-term losing proposition relative to the GCC.
- GCC elites and their economies will also have to deliver...
- The world's stake in GCC political stability becomes a paramount interest to mitigate risk to global stability.
- Militarization by the losers cannot be discounted and ignored.
- Reliance on markets can work, for a while...
- The US security blanket is a relatively cheap global risk mitigation measure.
- Will the US continue in this role?
  - Can it continue in this role?
  - Can GCC elites take the political heat?

# Questions?

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# Sources for Data

- IMF; World Bank; UNCTAD
- International Energy Administration
- International Energy Agency
- Morgan Stanley Research
- Gulf Research Center, Dubai
- Institute for International Finance
- McKinsey & Company
- Saudi Arabia British Bank
- RGE Monitor

# Selected '07 SWF's

Source: Morgan Stanley Research

China	State FX Inv.	\$300B
UAE	ADIA	\$875B
Singapore	GIC	\$330B
Norway	Govt. Pens.	\$300B
Russia	Stabilization	\$100B
Kuwait	KIA	\$250B
Saudi	SAMA <small>(not tech. SWF)</small>	\$290B
Qatar	QIA	\$60B

# Other Factoids

- Foreign reserves of government stand at \$5+ trillion
- SWF's total roughly \$2.8 trillion
- China today accounts for 30% of monthly growth of \$75-80 billion
- Asia has channeled its money into reserves, Gulf States into SWF's
- SWF's forecast to grow \$500B a year, taking money away from foreign reserves; could reach \$12 trillion in assets by 2015