As Oil Is Waning, the Times Are Changing

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very day in the news from the Middle East and North Africa (MENA), one can find evidence of the massive changes that are coming. The signs began gathering even before the pandemic.

The Kuwaiti finance minister announced in August 2019 that his government did not have enough cash on hand to pay public sector wages beyond October, setting off a sharp debate over how far to dip into the Future Generations Fund to cover current expenses. In February 2020, the International Monetary Fund issued a report on fiscal sustainability in Gulf Cooperation Council states, judging that economic diversification was far behind where it should be. It predicted that the region’s current reserves of wealth would be depleted by 2034 unless government spending was cut back.

While the Arab countries, particularly the wealthy Gulf states, might long have considered themselves insulated from global trends, recent events show that this is no longer true, if indeed it ever was. Mass protests, the pandemic, and climate change are all buffeting the region. Rising temperatures and water shortages will make some areas uninhabitable and create food insecurity. Among the climate-related trends most consequential for MENA is the changing world energy picture: the role of oil and gas is gradually diminishing compared with renewable sources.

Supply shortages and price hikes in the autumn of 2021 may recall times when analysts worried over peak oil, predicting when oil production would max out and be unable to meet global demand. But the resemblance is misleading. The question now is not peak oil production but peak demand—the point at which global demand for oil will begin to decline, eventually making it not worth taking out of the ground. Forecasts differ; some believe peak demand is still 20 years away, some estimate 10 years, and some think it is already here. The International Energy Agency (IEA) said in March 2021 that due to the spread of electric vehicles, global demand for gasoline might never return to pre-pandemic levels; a May 2021 IEA report suggested that this could be true for oil overall. Demand for natural gas might grow for another 15 years or so before also declining.

These changes in global energy markets have profound and understudied implications for the polities as well as the economies of the entire region. Put simply, the 2011 and 2019 waves of protest were just the beginning, and the region will almost certainly experience massive socioeconomic and political disruption, for good or ill, in the coming decades. Whether they rely on hydrocarbon revenues directly, or indirectly through political rents, governments are aware that their past modes of buying social peace are unsustainable. And they are taking unprecedented steps in domestic and foreign affairs to try to maintain control.

Reports by Amnesty International, Human Rights Watch, and other organizations show that Egypt, Saudi Arabia, the United Arab Emirates (UAE), and many other states are deploying increasingly harsh physical coercion and high-tech surveillance against their own citizens. At the same time, they are trying to cultivate nationalist sentiments and project images of socioeconomic progress. Many are spending beyond their means on public sector employment, cash handouts, and more in a bid to keep their citizens quiet.

In foreign affairs, MENA states are trying to stay in power by diversifying their alliances as well as outmaneuvering each other. The UAE, for example, has made rapid and surprising moves to secure its position at the expense of its longtime ally Saudi Arabia. Not only did the UAE withdraw from the joint intervention in Yemen, leaving the Saudis holding the bag, but Abu Dhabi also changed its oil strategy. After years of keeping much of its oil in the ground for future generations, the UAE in 2021 suddenly decided to ramp up production to profit while there was still strong demand—which set off a conflict with Saudi Arabia inside OPEC.

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Nor is the competition confined to oil. Saudi Arabia in February 2021 announced that within three years it would stop doing business with international companies that did not situate their regional headquarters in the kingdom. This move was clearly aimed at firms that so far have preferred to be based in Dubai or Abu Dhabi.

Even more consequential for the region was the UAE’s major foreign policy move, normalizing relations with Israel in August 2020. Whatever the lofty rhetoric of the “Abraham Accords,” the main impetus for the UAE appeared strongly correlated to concerns about waning international interest in the Gulf as oil declines. Through the accords, the UAE hitched its star to Israel as the strongest military, economic, and technological power in MENA, one that—unlike the United States—was not going anywhere.

In doing so, the UAE outflanked Saudi Arabia (unable to take such a step toward Israel due to objections from its larger, more religious population, as well as from King Salman himself) and thereby raked in rich benefits from the United States, including sophisticated arms. The UAE also paved the way for Bahrain, Morocco, and Sudan to normalize ties with Israel. Morocco, like the UAE, used the deal to secure a strategic benefit from the United States (in this case, recognition of its claim to Western Sahara) at the expense of its own regional rival, Algeria.

UNHEALTHY INFLUENCES

The Gulf states (especially the UAE, Saudi Arabia, and Qatar) played outsized regional roles over the last decade. Flush with cash from the high oil prices of 2010–14, they deployed financial power in Egypt while engaging in military action in Bahrain, Libya, and Yemen in order to steer outcomes of the 2011 uprisings. The Gulf states were by no means the only external actors, and their motives differed—Qatar supported the elected Egyptian government of President Mohamed Morsi, whereas the UAE and Saudi Arabia financed a 2013 coup to bring him down. But the net effect of their interventions was to complicate and frustrate any possibility that citizens in these countries would throw off authoritarian rule and establish accountable governance.

The UAE and Saudi Arabia also tried to intervene politically and economically in Sudan during the second wave of the Arab Spring in 2019. But their effort to promote military rule met with mixed success due to resistance from Sudanese civil society forces, which drew support from the African Union.

Tunisia has emerged as the most recent case in which Gulf states saw an opportunity to undermine an experiment in post-authoritarian governance. Between 2011 and 2015, Tunisians struggled long and hard, largely on their own, to forge a new political system, which they enshrined in a liberal constitution of which they were justifiably proud. Yet that new system failed miserably to deliver improved prosperity and governance or reduce corruption.

Amid disillusionment with the political class, Tunisians in October 2019 elected a new president: Kais Saied, a curmudgeonly law professor with no political experience who disagreed with key aspects of the constitution. When the economy tanked due to lack of tourism during the pandemic and a weak government botched the vaccine rollout in the summer of 2021, Saied saw his moment to capitalize on public discontent and dissolved the parliament. Gulf states lavished political support and financial largesse on Saied, apparently with the hope of shutting down the lone democratic beacon surviving from the 2011 revolutions.

A collapse of Tunisia’s democratic experiment would be unfortunate for its citizens and all of MENA, which badly needs new political models. But such a failure is unlikely to signal an enduring return to the region’s political status quo ante. As signs of the end of oil proliferate, more efforts to find alternatives to authoritarian rentierism can be expected.

That might mean more large-scale public protests against corruption, economic hardship, and repression breaking out when “people at some point get tired of being tired,” as an Egyptian friend of mine said recently. Change could also come in the form of military coups or wars, and life for many citizens in the region might get much worse, for at least a time, as old political elites struggle to hold on despite disastrously poor performance—as appears to be the case now in Lebanon.

What was once a regional race to develop oil and gas is transforming into a race to secure foreign backing and acquire the means of technical and physical coercion. Although dispiriting, this is more a symptom of change than the substance of change itself. Countries that were rich in oil or gas will eventually cease to dominate their neighbors, and it is not clear how far their investments abroad and sovereign wealth funds will carry them. Countries rich in human resources may well become relatively more powerful in the post-oil era. The advantage will go to those whose governments treat their citizens as assets to be cultivated rather than threats to be contained.