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THE MIDDLE EAST

The Economy in the Race for Power

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Summary

Middle Eastern geopolitics is currently undergoing structural changes: the regional order is in transition in the aftermath of the Arab Spring that undermined authoritarian governance, and triggered the competition for power against a backdrop of American withdrawal. This new race for regional domination challenges the traditional hierarchy of powers that is mainly based on military capacity and the interplay of foreign alliances. The economy, which had previously guaranteed the political status quo through the widespread distribution of the benefits of oil and gas rents, has now become a political weapon in relations between states. Through changes in economic governance, offensive investment strategies, funding wars, and the use of sanctions: the Gulf countries, aware of the intrinsic fragility of the rentier model and being rather passive powers, are now relying on their economic critical mass, and trying to mobilize their wealth to ensure a conservative transition. However, the effectiveness of these economic action mechanisms is not guaranteed: the normative and financial autonomy of most Middle Eastern economies is in fact limited, with problems in the regional economic system being further exacerbated by increased conflicts.

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Introduction

The concept of power plays a key role in analyzing international relations: it is considered to be both, the resource, the driving force and a key objective in States' activities on the international stage. The concept of power is associated with the concept of status and feeds an imagination that is caught between a desire for dominance (for those who identify with this) and a rejection of imperialism (for those who fear this). This dynamism in roles is now particularly evident in the Middle East, a region where geopolitical shocks follow one another, to the extent that the desire for power sometimes appears to be conflated with a need for survival.

The economy in the analysis of power: ubiquitous and under-explored

Power is a key, but multifaceted, area of research, like the theory of international relations, that evolves over time and with power relationships. The realist school of thought, that has defined power in objective, quantitative elements since the 19th century, gave way in terms of popularity at the end of the 20th century to analysis in terms of soft power, which is a concept introduced by Joseph Nye from a description of American post-Cold War foreign policy.[1] The indicators and tools of power are becoming more varied, and their use is part of more complex dynamics of interdependence; from military capability to cultural influence, there is also a move from coercion to persuasion.

The role of the economy in this thinking is unclear. Wealth fits into the classic, realist definition of power, and the 1970s also established the level of GNP as a standard for ranking world powers.[2] But, in addition to this practical view in terms of stock, the relationship between the economy and power is multifaceted: the economy influences the structure of a State and its robustness (through its chosen growth model); it can be involved in buying external influence, and can even be used as an offensive weapon – the return of trade wars and widespread use of sanctions demonstrate this. Edward Luttwak, who laid the foundations of geoeconomics in the 1990s by studying economic strategies used by States to defend their interests,

1. J. Nye, *Bound to Lead: The Changing Nature of American Power*, New York: Basic Books, 1990.
2. F. Argounès, *Théories de la puissance*, Paris: CNRS Éditions, 2018, p. 32.

thought he was witnessing the emergence of an international system where economic competition would take the place of war.[3] Nowadays, it is debatable whether intensified economic competition fosters a pre-conflict situation in some contexts, and whether maintaining increasingly fragmented micro-economic interests is an obstacle to ending existing wars. In contrast to liberalism that promotes '*doux commerce*' and the benefit of interdependence, Marxist political economics associate capitalism with the outbreak of wars, while emphasizing that specific economic phenomena are produced by conflicts themselves. Yet, the purpose of both these macro-historical narratives is really to examine the best way to achieve peace – or a state of balance of power. We are undeniably at a point of breakdown in the balance of power in the Middle East.

The new obsession with power in the Middle East

Observers of the Middle East, gripped by strategic tensions that frequently escalate into military crises – civil wars or inter-state conflicts – often overlook the significance of economic determinants in initiating and managing these selfsame crises. The Middle East's political economy is of interest, more as a factor in understanding internal developments in regimes, than in explaining relations between States. This is probably because the dominant model of economic organization in the region, the rentier state, is fundamentally an introverted and conservative model. For a long time, rent provided a flawed form of redistribution that ensured that inter- and intra-state stability was 'preserved'.[4] However, this exception is coming to an end. The fragility of economies linked to commodity prices, which are therefore sensitive to geopolitical shocks and dependent on the production decisions of industrialized economies, has shattered the enchanted dream of paid idleness. Financial and social problems are now increasing and are a cause of significant instability, both for rentier regimes and for those that have benefited directly or indirectly from their largess. One thing leading to another, most of the major geopolitical developments that have recently shook the region, from the spread of the "Arab Spring" to the inevitable rise in tension between Iran and Saudi Arabia, can be analyzed through the prism of the economy.

3. E. Luttwak, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce", *The National Interest*, vol.20, p. 17–23, 1990; P. Lorot (ed.), *Introduction à la géoéconomie*, Paris: Economica, 1999.
4. H. Beblawi, "The Rentier State in the Arab World", *in* G. Luciani (ed.), *The Arab State*, London: Routledge, p. 85-98; Y. Matsunaga, "L'État rentier est-il réfractaire à la démocratie?", *Critique internationale*, vol.8, No. 3, 2000, p. 46-58.

If 'the obsession with power', which according to Bertrand Badie, accompanied the emergence of the modern international system[5], is nowadays focused in a particularly striking way on the Middle East, this is mainly because the field of competition has been opened up by the relative withdrawal of external actors who helped to control it – primarily the United States. The return or consolidation of nationalism and the sense of an opportunity to assume regional leadership partly explain the tensions. But it is also because regimes, worried for their survival, have decided to mobilize vast resources, in an unprecedented way, for the benefit of an extraneous objective: the preservation of an economic and social order openly challenged by uprisings. The current dialog by powers in the Middle East is consequently being conducted in the form of widespread confrontation and in increasing confusion. Each one is trying to gain a share of the market of regional influence in order to consolidate a view of politics or institutions (revolution versus conservatism, centralism versus federalism, institutional communitarianism versus the desire to neutralize identities); or a religious preference (a settling of accounts between the different versions of Sunni Islam can be superimposed on to the much discussed Sunni/Shiite confrontation, while the antagonism between defenders of secularism and the confessionalization of politics persists). Control of natural resources also comes into play, because while the post-rentier shift is not guaranteed, control of oil and gas prices clearly remains a key objective for diplomats of the Arabian-Persian Gulf countries.

The economy between soft and hard power

The objective in this article is to highlight the role of the economy in this new competition between powers in the Middle East. The scope of this study includes the following 15 countries: Saudi Arabia, Bahrain, Egypt, the United Arab Emirates, Iraq, Iran, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Syria, Turkey, and Yemen. The hypothesis is that the internal economic dynamics and organization of trade and financial relations between these countries, as well as between these countries and the rest of the world, actively contribute to the balance of power and the hierarchy of regional powers.

In this game of economic power, the States in the geographical area under study remain the principal actors, because of an insufficiently developed private sector that could negotiate the major balances of power

5. B. Badie, *L'impuissance de la puissance. Essai sur les nouvelles relations internationales*, Paris: Fayard, 2004, p. 21.

with them. The erosion of state power described by the (French) sociological school of international relations[6] does not yet significantly affect the economic arena. The economic system in the Middle East is dominated by a bloated public sector, with multi-national companies being scarce and a tractable civil society. However, powerful parastatal organizations (militias and mafia clientele) are increasingly challenging the central government; wars, in particular, produce their own gray economy, complicating the understanding of the explicit power relations.

In fact, the Middle Eastern countries continue to maintain a very, perhaps too close, political relationship over their economies, often at the expense of productive management. The practice of controlling the economy internally, at the service of an implicit contract of social anesthesia, now makes the idea of its external use seem natural. Targeted financial operations on neighboring countries' political sectors, funding warring factions, imposing blockades and sanctions, are all becoming commonplace and demonstrate an increasingly aggressive use of the economy in the field of interstate relations. This raises the question of whether the economy is really on the side of soft power, as the Turkish Minister of Foreign Affairs, Ahmet Davutoğlu, consistently claimed in the 2000s – given that nowadays Turkey itself makes use of diplomatic pressure to the point of breakdown and military intervention. At the same time, the strategies of influence of Arab countries in the Gulf, which until then had been relatively discreet, have clearly evolved into more offensive projects of political reconquest. The economy then completely moves into the realm of hard power: can money, which until then bought the status quo, give rise to a new hierarchy of powers?

6. B. Badie and M.-C. Smouts, *Le Retournement du monde. Sociologie de la scène internationale*, Paris, Presses de la Fondation nationale des sciences politiques & Dalloz, 1992.

A Traditional View of Power in the Middle East: Military Preparedness, Natural Wealth and Persistent Myths

Thierry Garcin, examining what he calls the "fragmentation of the world" in his study of contemporary power, quickly dismisses the description of the "Arab world [which] has never been so fractured, and fractured from within.[7]" In the pantheon of international power, it is true that the Middle Eastern countries usually contending for the best places are not Arab: it is the trio of Israel, Iran and Turkey that best combines the conventional criteria of power, to the point that these countries are almost considered as extra-regional actors[8]. The power of less visible, but structured channels of influence, as well as the strength of perceptions, however, allow Arab nations to hold their own.

The conventional definitions of power, from stock to flow

At the start of the Cold War, a critical moment when the balance of terror had not yet been achieved, the American realist school of international relations tried to theorize about national power in operational terms. Hans Morgenthau defined it using eight elements: military preparedness, geography, natural resources, industrial capacity, population, national character, national morale, quality of diplomacy, and quality of government.[9] Fifteen years later, Raymond Aron's definition, or "the capacity of a political unit to impose its will upon other units or the capacity

7. T. Garcin, *La Fragmentation du monde. La puissance dans les relations internationales*, Paris: Economica, 2019, p. 85.
8. A distinction that permeates O. Roy's article, "Moyen-Orient: faiblesses des États, enracinement des nations", *Critique internationale*, No. 4, 1999, p. 79-104.
9. H. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, New York, Knopf, 1948.

of a political unit to keep the will of others from being imposed upon it"[10], introduced a relational element that seems obvious now: power is measured in relation to others.

The following decades increasingly took the growing interdependence and the disciplining effect of international organizations into account. The current summary proposed by Fabrice Argounès, which incorporates these developments, lists three additional elements, stating that power is both: 1. a pool of resources, this would be Morgethau's 'stage'; 2. a relationship between States, this is Raymond Aron's idea; and 3. structure: we are talking here about the capacity to indirectly shape actors' choices, by imposing a framework for action[11]. In concrete terms, we are moving from a stock of power, in 1, to a flow, in 2, that is organized and institutionalized in 3. Firstly, we shall examine stage 1: which Middle Eastern countries are best endowed?

Geography

Source: Adobe stock.

10. R. Aron, *Paix et guerre entre les nations [Peace and War: A Theory of International Relations]*, Paris: Calmann-Lévy, 1962, p. 92.
11. F. Argounès, *Théories de la puissance*, *op. cit.*, p. 29.

With regard to the geography criterion, we need to consider both the land and its exploitation. In terms of surface area, Saudi Arabia (2.5 M km^2) is in the lead ahead of Iran (1.75 M), Egypt (1 M) and Turkey (785,000). These four countries alone account for more than two-thirds of the surface area of the countries under study.

Geography and Surface Area of Middle Eastern Countries

Country	Surface Area (km^2)	%
Saudi Arabia	2,149,690	32%
Iran	1,745,150	26%
Egypt	1,001,450	15%
Turkey	785,350	12%
Yemen	527,968	8%
Iraq	435,052	6%
Oman	309,500	5%
Syria	185,180	3%
Jordan	89,320	1%
United Arab Emirates	83,600	1%
Israel	22,070	0%
Kuwait	17,820	0%
Qatar	11,610	0%
Lebanon	10,450	0%
Bahrain	778	0%
Regional Total	6,746,472	100%
Total of Global Surface Area	132,025,199	5%

Source: World Bank, 2018 / CIA, The World Factbook, 2020

The Middle East's strategic interest then lies primarily in its location as a connecting area, linking the Indies to the Mediterranean, the Red Sea, the Indian Ocean or the Caspian Sea. This position resulted in increased colonial rivalries among the European powers at the end of the 19th century. Nowadays, the countries in the region with the greatest land and marine surface area certainly have an advantage, but the land must also be subject to strategic investments (infrastructure, transport, economic development) to exploit this potential advantageous position. The development of infrastructure, especially seaports and airports, can be part of a hub strategy: Dubai is thus emerging as the largest regional hub. Jeddah (Saudi Arabia) and Salalah (Oman) are ranked among the top 40 ports in the world in terms of capacity. Airports are also part of this logic: Dubai and Doha are very busy transit points for international transfers and a support platform for the national airlines of their respective countries.[12] Turkey, which wants to make Istanbul a crossroads between Europe, Asia and Africa, has been inspired by this airport hub strategy. The new airport, which opened in 2019 with an initial capacity of 90 million passengers per year, intends to compete directly with Dubai.

Natural Resource Endowment

The Middle East is well endowed with natural resources with the most valuable ones being oil and gas. According to British Petroleum data, the 15 countries under study contained more than half of the global proven and recoverable oil reserves and more than 40% of global gas reserves at the end of 2017. Saudi Arabia alone has 33.1% of the region's oil reserves and the extraction cost of Saudi oil is the cheapest in the world. With a production rate of 10.6 million barrels per day, the country has the equivalent of 70 years of production. This wealth makes Saudi Arabia the biggest economy in the Middle East and the 20th largest global economy – and therefore a member of the G20, which it will assume the rotating presidency of for the first time in 2020. Iran has the second largest oil reserves in the region and the largest gas reserves, but is not able to exploit them due to sanctions. Iraq has the third largest oil reserves and a few years ago it referred to itself as “the next Saudi Arabia”.[13] Qatar has 31.8% of the region’s gas reserves, or an over-endowment compared to its size and population, and is therefore the top-ranking country in terms of GNP per capita.

12. J. Lebel, “Emirates Airline, Etihad Airways et Qatar Airways: des compagnies aériennes d'envergure mondiale au service du rayonnement des émirats de Dubaï, d'Abu Dhabi et du Qatar”, *Études de l'Ifri*, Ifri, July 2019, available at: www.ifri.org.
13. Ifri, Conference “Perspectives énergétiques pour l'Irak”, October 26, 2012.

Total proven oil and gas reserves in 2017

Total proven oil reserves at the end of 2017				Total proven gas reserves in 2017			
	Billion barrels	% within the region	Total %		Billion barrels	% within the region	Total %
Saudi Arabia	266.2	33.1	15.7	**Iran**	33.2	42.5	17.2
Iran	157.2	19.5	9.3	**Qatar**	24.9	31.8	12.9
Iraq	148.8	18.5	8.8	**Saudi Arabia**	8	10.2	4.2
Kuwait	101.5	12.6	6	**UAE**	5.9	7.5	3.1
UAE	97.8	12.2	5.8	**Iraq**	3.5	4.5	1.8
Qatar	25.2	3.1	1.5	**Kuwait**	1.7	2.2	0.9
Oman	5.4	0.7	0.3	**Oman**	0.7	0.9	0.7
Syria	2.5	0.3	0.1	**Syria**	0.3	0.4	0.1
Total	804.6	100	47.5	**Total**	78.2	100	40.9

Source: BP Statistics

Population

The region's demographics remain under-studied because of the poor quality of data available (lack of civil status and incomplete publication). The very uneven population distribution also makes this data difficult to interpret. Nevertheless, a look at the table below shows that Egypt (101 million inhabitants), Turkey and Iran (around 83 million each) are the three most populous countries.

Population and Demographics in the Middle East

Country	Population			Population growth	Population composition				Fertility		
	Population in millions			Annual growth rate	Population aged 0-14 years (%)	Population aged 10-24 years (%)	Population aged 15-64 years (%)	Population aged 65 years + (%)	Fertility rate per woman		
	1969	1994	2019	2010-2019	2019	2019	2019	2019	1969	1994	2017
Egypt	34,2	62,5	101,2	2,1	33	26	62	5	6,3	3,9	3,1
Turkey	34,1	57,6	83,0	1,5	24	24	67	9	5,7	2,8	2,0
Iran	27,8	59,7	82,8	1,2	24	21	70	6	6,5	3,5	1,6
Iraq	9,6	19,6	40,4	3,0	40	31	57	3	7,4	5,5	4,2
Syria	6,1	13,9	18,5	-1,4	35	35	60	5	7,6	4,6	2,8
Yemen	6,1	14,3	29,6	2,5	39	33	58	3	8,3	7,8	3,7
Saudi Arabia	5,6	18,3	34,1	2,4	25	21	72	4	7,3	5,2	2,4
Israel	2,8	5,2	8,6	1,6	28	23	60	12	3,8	2,9	2,9
Lebanon	2,2	3,4	6,8	3,7	22	25	69	9	8,0	4,8	1,7
Jordan	1,6	4,4	10	3,8	35	30	61	4	5,1	3,0	3,2
Kuwait	0,7	1,7	4,2	3,9	21	19	76	3	7,3	2,7	1,9
Oman	0,7	2,1	5,0	5,5	21	19	76	2	7,3	5,7	2,5
United Arab Emirates	0,2	2,3	9,7	1,8	14	16	85	1	6,7	3,6	1,7
Qatar	0,1	0,5	2,7	4,8	14	18	84	2	6,9	3,6	1,8
Bahrain	N/O	0,2	1	4,9	19	N/O	79	2	6,7	3,2	2

Sources: UNFPA / World Bank.

The entire region started its demographic transition in the 1950s and 1960s but, with the exception of Syria, whose population decreased by 1.4% between 2010-2019 because of the war, the population of all of the other countries continues to increase. The demographer, Youssef Courbage, also notes that fertility rates have been increasing since the late 2000s, and even more so since the 2011 revolutions. Egypt, in a situation of "demographic counter-transition" could have a population of 162 million inhabitants in 2050.[14]

Other significant indicators from a population perspective are social integration models for migrant workers and similarly the dynamics of diaspora. The effective management of immigration by the small Gulf States partly compensates for their numerical disadvantage,[15] while the diasporas provide an overseas presence that can be influential, not only economically,

14. Y. Courbage, "Où en est la transition démographique dans le monde arabe?", IREMMO, 2017, available at: http://iremmo.org.
15. M. Lavergne, "Golfe Arabo-Persique : de la ségrégation au 'vivre-ensemble'", *Hérodote*, 3rd tr. 2019, No. 174, p.193-208.

but also in terms of cultural influence – as in the Egyptian presence in the Arab Gulf countries.[16]

Military preparedness

Gross military capacity, in terms of personnel and equipment, must be supported by qualitative data. The Firepower Index of the Global Firepower organization combines 55 indicators making it possible to weight the level and type of equipment, as well as the number of soldiers, by geographical position or countries' level of political stability.[17] In 2019, this ranking put Turkey in 9th global position, Egypt in 12th, Iran in 14th, and Israel in 17th. Saudi Arabia, despite stockpiling the most sophisticated equipment, is only in 25th position. It should be noted that the United Arab Emirates in 62nd place, and Kuwait in 84th place, are the only two countries in the region to improve their ranking year on year.

For some of these countries, armies remain the backbone of institutions, and the first two countries on our list present contrasting cases from this point of view. In Turkey, the political authorities managed to regain control of the army after several decades of repeated military coups d'état. In Egypt, the failed attempt at democratization in 2011 resulted in a coup in 2013, restoring the army to its political and economic powers. Direct military engagement on the ground also counts: the military power of Turkey and Iran is boosted by their involvement in the Syrian conflict. Finally, the general intervention of paramilitary forces in conflicts in the region is blurring the issue: Iran's military capability is in fact increased by the control it exercises over numerous and very active militias, both in Iraq and Syria.

The "government"

The focus here is on the robustness of institutions and regimes. The relevance of grafting on the Western State, which may be an accidental historical legacy, is regularly debated in the Middle East; however, there is a wish for statehood, asserted over time, but it is often in the guise of weakened states.[18] The three non-Arab countries, Iran, Israel and Turkey have the reputation of being the most robust: they are nation-states, albeit

16. See for example the World Bank report, "Mobiliser la diaspora de la région Moyen-Orient et Afrique du Nord pour promouvoir l'intégration économique et l'entrepreneuriat" [Mobilizing the Middle East and North Africa diaspora for economic integration and entrepreneurship], 2016.
17. "Global Firepower Index, 2019 Military Strength Ranking", available at: www.globalfirepower.com.
18. D. Schmid, "Les États au Moyen-Orient : crise et retour", *Politique étrangère*, vol.83, No. 1, Spring 2018, p. 51-62, available at: www.ifri.org.

forced, but which "control" their minority issues and have a fairly reliable and effective legislative and bureaucratic apparatus. At the other end of the spectrum, are the failed quasi-states, that Syria, Iraq or perhaps Lebanon now are: the central government does not have authority over part of the territory, rulers are under constant pressure from part of the population that challenges their legitimacy, public services are in a state of neglect and there is widespread corruption. Several Middle Eastern countries are at the bottom of *Transparency International's* global corruption ranking: out of 180 countries, Lebanon comes in 137th place, Iran is 146th, Iraq 162nd, Yemen 177th and Syria 178th.[19]

The resilience of some regimes against this deteriorating backdrop is, nevertheless, significant. With weak states come strong regimes: although repeated popular protests since 2011 have shattered the reputation of the authoritarian Arab model for being unassailable, the Egyptian military regime has, nonetheless, managed to re-establish itself and it is not yet known what the ongoing restoration of the Syrian regime will lead to. Others, like the Saudi regime, are obviously in transition, without it being known whether the ongoing changes will enable its consolidation or, to the contrary, potentiate opposition to it.

National discourse, foreign policy doctrines and "quality of diplomacy"

Morgenthau's "national character" and "national morale" are particularly reflected in the capacity to produce a unified national discourse for the outside world. Two groups stand out from this point of view in our sample: on the one hand, the old nations, Syria, Iraq and Iran; on the other hand, the young countries, such as Saudi Arabia, Oman, Kuwait, Qatar and the UAE. The historical national narrative of the former can refer to a history of millennia, symbolized by monuments and key dates that make sense and have value, for example, at regional level. Therefore, Iran shows its disdain for more recent countries, such as Saudi Arabia, and extols its connection with Syria, glorifying a kind of civilizational link with "the soul of the Middle East".

Recent nations are increasingly aware of their historical handicap and are trying to "rectify" it. Saudi Arabia is now entering an accelerated phase of developing a national narrative, that some do not hesitate to describe as

19. Transparency International, Corruption Perceptions Index 2019, available at: www.transparency.org.

hyper-nationalist.[20] The medium-term reform plans put forward by all the Gulf countries, from the Saudi and Emirati "Vision 2030" to the Omani "Vision 2040", are also considered as national performance narratives, capable of harnessing energy in an open regional competition. Turkey and Israel are making a constant effort to root their national discourse in a historical past: the former's neo-Ottomanism and the latter's insistence on the local historical roots of the Jewish people, are supposed to provide more legitimacy, or even to justify expansionist tendencies.

The foreign policy doctrine formulated by the Turk, Ahmet Davutoğlu, a professor of international relations and former Minister of Foreign Affairs for his country, demonstrates this clearly: starting with a rehabilitation of the Ottoman memory, he defined the regional priorities for Turkish foreign policy, with the avowed intention of asserting power.[21] The substantial resources, allocated to the Turkish Ministry of Foreign Affairs for the past 15 years, have also helped to substantially expand the diplomatic network, that has become the 5th largest in the world.

The diplomatic quality of some states has been tested in times of crisis: Qatar's ability to mobilize its political partners for the purpose of reassurance and to make its "little voice" heard in the face of the Saudi blockade since 2017, is remarkable in this regard.[22] On the other hand, the power of attraction, soft power in the strict sense of Joseph Nye, is scarcely developed in the region: apart from the very specific case of Israel, a rallying point for the Jewish diaspora, only Turkey seems to be working on its power of attraction – it was indeed promoted as a "model for the Arab world" after the 2011 revolutions.

"Industrial capacity" and more

The elements listed may affect all or part of the economy. The land, as heterogeneous as it may be, is the root of economic activity, in the past agriculture, and nowadays industrial: it is both a pool of resources, the place where production is organized and where products circulate; the population level determines the workforce; governance defines the framework of economic activity, and so on.

A more detailed examination of the economics of power will inform the rest of this study. It should be noted at this point that, although the Middle

20. E. Alhussein, "Saudi First: How Hyper-Nationalism Is Transforming Saudi Arabia", *ECFR Policy Brief*, June 2019.

21. D. Schmid, "L'AKP et les défis de la puissance", *Les Cahiers de l'Orient*, vol. 3, No. 127, 2017, p. 65-76.

22. E. Soubrier, "Crise du Golfe : un bilan provisoire", *in* T. de Montbrial and D. David (eds.), *RAMSES 2019*, Paris, Ifri/Dunod, 2018, p. 164-169.

East was dominated economically throughout its history by the Ottoman Empire and then by the European powers, the balance of power was partly reversed after decolonization due to the massive exploitation of hydrocarbons. Therefore, it is certainly not 'industrial capacity' that makes the difference in the region, but the level of rent provided by natural resources, and the sophistication of the system of socio-political control that supports it.

"Objective" power and myths shaping regional identity

If the conventional criteria, which we have listed, are combined, the countries that could 'objectively' claim power status in the region at this stage would be Saudi Arabia, Egypt, Iran and Turkey. The dynamism of their geopolitical trajectory appears, however, to be markedly very unequal. Economic parameters nowadays play an obvious part in this perception: an Iran very impoverished by sanctions, an Egypt under an influx of Saudi and Emirati aid, fare less well in real figures than in the historical illusions that still prevail.

Fantastical visions of regional power are hence maintained through geopolitical vicissitudes, particularly fostered by the lack of reliable data: the vagueness preserves reputations that concrete facts could call into question. Symbolic capital continues to play an essential role in intra-regional political relations: from this point of view, Egypt or Syria embody a regional Arab aristocracy and the Gulf countries, are seen as "nouveaux riche", and are unable to contest this status with them. The strength of the weak, in any case of the poor, seems partly framed in this context. And in this geopolitical theater, Turkey and Israel remain outsiders, more or less isolated in a national narrative that deliberately cultivates their foreign identity and often propels them outside of the region – Turkey has only very recently started to reinvest in the Middle East, which it completely abandoned in the Kemalist era; it is now obsessed with one-on-one relations with the European Union, and is developing its medium-term power ambitions with Africa.[23]

23. D. Schmid (ed.), *La Turquie au Moyen-Orient, le retour d'une puissance régionale*, Paris: Tallandier, 2011.

Economic Power in the Middle East: from Passivity to Action

By now examining the content and role of economic factors, we will move beyond the stock approach to address the issue of the flow of power in the Middle East: the belated desire for power by rich states indeed appears as the main driving force and determinant of the current competition.

An important but fragile wealth

Economic power preserved

North Africa and the Middle East have been the target of successive empires' predatory behavior: the Ottoman Empire, and then the European states, conquered all its regions between the 16th and 20th centuries. The Ottomans introduced a tribute rentier system in their Arab provinces, exploiting the production of a very poor rural world.[24] Georges Corm notes that "Arab nationalist literature (...) has tended to attribute the underdevelopment of Arab societies to <the> long Ottoman dominion". Subsequently, French and British mandates in the region resulted in a new form of rentier economy, based on monopolies managed by European companies, from water and electricity supply to the cultivation of cotton, and including the railways. The late modernization of the Empire was achieved through the expansion of European economic interests and their investments that resulted in the build-up of a massive debt; whose shadow still haunts the Turkish collective unconscious.

After political independence, economic decolonization happened later with the nationalization of hydrocarbon resources. A symbolic appropriation stage that placed the management of the rent directly into the hands of the new states. Initially, the regional political hierarchy only maintained a loose or indirect relationship with the economic balance of power. In a geographical area where the industrial growth model remained in the minority, rentier wealth served to consolidate a strategic status quo structured by the Arab-Israeli conflict and Arab-Iranian competition. The

24. G. Corm, "L'influence ottomane dans les structures socio-économiques des pays arabes et leur mode de développement", *Anatoli*, No. 5, 2014, p. 218.

wealthiest countries from exploitation of their resources, the Gulf Arab monarchies, were mainly focused on their internal affairs without taking geopolitical center stage, leaving less well-endowed nations to wage wars in their place.

However, from 1973 the first attempt was made to use economic weapons to satisfy political objectives: in order to obtain the evacuation of the Palestinian territories occupied by Israel after the Yom Kippur War and the recognition of Palestinian rights, the OPEC Arab countries unilaterally decided that year to increase the price of a barrel of crude oil by 70% and to reduce production. This demonstration of collective power, which triggered the first oil shock, did not achieve the desired political results and was not followed up. It was only much later that awareness of economic assets emerged, both as a guarantee of status in the regional hierarchy and as a tool to achieve political objectives beyond the borders. This shift was triggered by awareness of the inherent fragility of the rentier model. Seriously affected by the fall in oil price from 2014, the region's economies deteriorated and leaders have had to consider more effective wealth management to ensure it lasts and is able to deal with outbreaks of protests. Growing social unrest has perpetuated instability in the region since 2011. It needs to be addressed: consider reforms, expand mechanisms to buy social peace, or repress.

The basis of economic power in the Middle East: models and sustainability

Pascal Lorot, a popularizer of Edward Luttwak's geoeconomics in France, stated in plain terms in 2009, that "a nation's economic health is the yardstick which its power is judged by".[25] Yet, 'economic health' is not the same thing as gross wealth and this difference matters particularly in the Middle East.

If income per capita is referred to, the economic spectrum in the region now extends from one extreme to another. Indeed, it consists of countries classified as middle-income countries as defined by the World Bank in 2017, including some lower-middle income countries (from $791 to $4,992 per capita), such as Iraq, Jordan, Egypt or Yemen, and upper-middle income countries (between $ 4,993 and $ 8,254 per capita), such as Iran and Lebanon. It also includes high-income countries (over $ 8,255 per capita), some of which are extremely wealthy, such as Qatar ($ 58,610 per capita) or the United Arab Emirates ($ 38,550 per capita). Nearly half of the countries

25. P. Lorot, "De la géopolitique à la géoéconomie", *Géoéconomie*, vol. 3, No. 50, 2009, p. 10.

in our study come under the first category and the other half are in the second one.

Gross Domestic Product and Gross National Income Per Capita in the Middle East

	GDP (million $) 2017		GNI/Per capita in dollars (2017)
Turkey	852,676	Qatar	58,610
Saudi Arabia	688,586	UAE	38,550
Iran	454,012	Israel	37,420
UAE	377,701	Kuwait	31,660
Israel	353,253	Bahrain	21,180
Egypt	235,369	Saudi Arabia	19,990
Iraq	195,473	Oman	14,590
Qatar	166,928	Turkey	10,900
Kuwait	120,701	Lebanon	7,500
Oman	70,597	Iran	5,470
Lebanon	53,393	Iraq	4,860
Jordan	40,708	Jordan	4,020
Bahrain	35,432	Egypt	3,040
Yemen	26,818	Yemen	1,460
Syria	N/O	Syria	N/O

Source: World Bank

If we focus on growth models, two different models broadly coexist in the region: that of real rentier countries, energy exporters like Saudi Arabia, Bahrain, the United Arab Emirates, Iran, Iraq, Kuwait, Oman, Qatar, and Yemen before the war; and that of countries with more productive and diversified economies: like Turkey, Israel, or even Syria before the civil war, which all produce goods and services that are exported. Turkey and Israel are highly integrated in the global supply chain, and have entered into free trade agreements with a number of partners and the key financiers in the emerging world. Egypt is a unique intermediate case as it is both a rentier economy (income from the Suez Canal, from gas discovered off the coast of Alexandria, flows from expatriates, tourism income, US ‘strategic endowment’) and a productive one. Jordan and Lebanon, which are positioned between these two models, are importing countries that are dependent on aid and subsidies from their neighbors and allies (Western and Gulf countries): these economies are assisted ones.

Rentier countries are dependent on developments in international markets, through the oil prices and dollar exchange rates, and have less and less control over these factors. They have pegged their currency's exchange rate to the dollar for decades and do not have an independent monetary policy, which deprives them of an important economic management tool. The oil shock in 1973 certainly shook the West by ushering in an era of Arab domination of the oil markets, but the current change in the oil market is drastically reducing the region's oil-producing countries' power over price levels. The United States indeed changed the situation by becoming the world's leading producer, because of its exploitation of shale oil and gas.

Although, if the Middle Eastern countries are very sensitive to any drop in hydrocarbon prices, it is because of their high budgetary needs. The equilibrium price for producing countries is very high. This is particularly true for Saudi Arabia which explains why it has moved closer to Russia to halt the decrease in oil prices – a co-operation known as OPEC+.

Equilibrium points in budgets

Current Price in Dollars	Kuwait	Iran	Qatar	Iraq	UAE	Oman	Saudi Arabia
62.92	49.1	51.3	52.9	54.3	67.0	79.2	83.8

Sources: National authorities; International Monetary Fund

The UAE, which is the second largest economy in the Gulf after Saudi Arabia, has a more diversified economy: the hydrocarbon sector only accounts for 20% of its GDP, and it is the only Gulf State to have maintained a currency account surplus despite the drop in hydrocarbon prices. Qatar, which is heavily dependent on the hydrocarbon sector (75% of exports), had to draw on accumulated funds and carry out an expenditure rationalization process, while resorting to international and domestic markets to finance its deficits.

Within the small group of industrial economies, the structure of Israeli production is export-focused (a third of GDP), and oriented towards high-tech activities and benefits from significant R&D investments (public and private) (43% of GDP for civilian R&D). The Israeli economy is resilient; with a robust external position; a solid institutional framework and favorable fiscal positions. The exploitation of new offshore gas fields, which requires the construction of new infrastructures, should help support growth. With regard to the largely extroverted Turkish economy, it is suffering from the obsolescence of its model focused on industries in decline (automobile and textiles), from European quasi-stagnation, and the loss of its Middle Eastern markets due to conflicts and sanction regimes. Turkey is a major consumer of energy, and is struggling to diversify its supply that is dominated by Russia. Due to a chronic lack of reserves, it has to rely on external funding which is becoming increasingly risk-averse faced with the country's deteriorating governance.

Support from sovereign wealth funds

Over time, natural wealth has produced financial wealth in rentier States that has been saved in sovereign wealth funds. Three of the world's top ten sovereign wealth funds are from the Middle East and funds from the region account for 33% of global assets in total.

Ranking of Middle Eastern Sovereign Wealth Funds by Total Assets

Rank / 81	Names	Total in Dollars
3	Abu Dhabi Investment Authority	696,660,000,000
4	Kuwait Investment Authority	592,000,000,000
10	Public Investment Fund	320,000,000,000
11	Qatar Investment Authority	320,000,000,000
12	Investment Corporation of Dubai	239,379,000,000
13	Mubadala Investment Company	226,484,000,000
16	National Development Fund of Iran	91,000,000,000
25	Emirates Investment Authority	45,000,000,000
27	Turkey Wealth Fund	40,000,000,000
33	Oman State General Reserve Fund	20,670,000,000

36	Mumtalakat Holding	16,670,200,000
43	Oman Investment Fund	6,000,000,000
63	Development Fund for Iraq	900,000,000
64	Palestine Investment Fund	856,224,000
66	Sharjah Asset Management	793,202,000
80	Iran Oil Stabilization Fund	24,000,000
		2,616,436,626,000
		7,903,478,982,002
		33%

Source: Sovereign Wealth Funds Institute, 2019.

It is difficult to assess the extent of these funds in a completely realistic manner. Their exact funding is not accurately known and is generally underestimated. Several funds may also coexist in the same country with different strategies[26] e.g. there are at least four in the Emirates: Mubadala, Emirates Investment Authority (EIA), Investment Corporation of Dubai (ICD) and the most powerful of them all, Abu Dhabi Investment Authority (ADIA). Up until the financial crisis in 2009, during which they incurred significant losses, the management and investment profile of Arab sovereign wealth funds remained rather vague, "passive and less coherent" if compared to those of countries that use their funds as real public policy tools (Norway and China).[27]

However, there is no doubt that the management of these funds is becoming more professional. Although, they are still heavily dependent on funds from oil and gas rents, they have recently diversified and the returns from their financial investments are now being used to offset potential budget deficits. Foreign investment is therefore at the heart of the Emirati funds' strategy: around three-quarters of their assets are invested abroad, in Europe and North America, with direct holdings in industrial groups considered as important for the Emirates' development (aerospace with Piaggio Aero and ICT with the operator Du). Qatar also has minority

26. F. Aïssa Touazi, "Les fonds souverains du Golfe", study carried out for the FRS, February 2019, available at:www.frstrategie.org.
27. L. al-Rachid and D. Schmid, "Les fonds souverains arabes, une indépendance problématique?", *in* T. de Montbrial and D. David (eds.), *RAMSES 2010*, Paris: Ifri/Dunod, p. 168.

holdings in many major French companies, including Total, LVMH and Vivendi, as well as in the British bank Barclays and the Swiss bank Crédit Suisse (more than 5%).

Although, sovereign wealth funds are an important means for the Gulf countries to invest overseas, they are also increasingly investing in the infrastructure of countries directly to promote the development of their home economies. This type of strategy allows for the creation of companies with a regional, or even international, dimension in sectors such as petrochemicals (the Saudi SABIC) or air transport (Emirates, Etihad, Qatar Airways). Yet, multinationals are in fact an essential asset of economic power that these States lacked.[28]

Economic power in action: learning about efficiency

Despite the fragility of their model, the Gulf petromonarchies are naturally positioned at the top of the podium of economic power; and nowadays there is an urge to make the economy politically active, incorporating it as a tool of power in the system of regional strategic relations.

Imbalances and desire for power

The distribution of power is not necessarily the result of deliberate accumulation: it can change without the actors' involvement. In the region under review, successive oil shocks have skewed this distribution to the advantage of hydrocarbon- rich countries, which have subsequently fallen back on conserving their gains – a possession for internal use, supported by some largess for neighboring countries, whose political impact was limited. Bertrand Badie and Marie-Claude Smouts observe that having the means of power does not necessarily result in its conversion into actual power. This reminds us that power has a passive definition in terms of stock, as previously stated, and an active definition that belongs on the side of interaction and flows of power. We are now witnessing a dynamic of belated extroversion in the Middle East, reflecting a deliberate political influence, supported by economic means: wealth is becoming active.

There has not been a direct predatory war in the Middle East since the invasion of Kuwait by Iraq in 1990, which led to reprisals with the intervention of a US-led military coalition. However, the geopolitical context has changed considerably since the early 21st century and the underlying

28. For more on the importance of multinationals in the ranking of economic power, see O. Passet, “La puissance économique de la France en 2020”, Xerfi, 2020.

tensions are becoming more explicit. The attacks perpetrated by the Islamist terrorist organization, Al-Qaeda, on September 11, 2001 challenged the United States on its own territory and questioned its overarching presence in the Middle East. The Western intervention that followed in Afghanistan and in Iraq did not remedy anything, and the impossibility of stabilizing the region finally led to the prospect of a full American military withdrawal. The power vacuum that then emerged stirred ambitions. The "large" states in the region assessed the impact of their resources to fill this vacuum, to influence the establishment of a new balance of power (such as the UAE, Qatar or Turkey), or at least to exercise sufficient deterrence with regard to their peers, sometimes seen as aggressive (Saudi Arabia towards Iran).

The appeal of economic hard power

From the late 1990s, Sheikh Hamad bin Khalifa al Thani of Qatar asserted a soft power ambition that the small Emirate was able to pursue because of its immense wealth. The attraction exerted over Arab audiences by the Al-Jazeera TV channel, which launched on November 1, 1993, investments in sport, and generous economic aid, are all carefully distributed "carrots", which have created a friendly perception of Qatar, well beyond the Middle East.[29] Turkey, inspired by Ahmet Davutoğlu, provided another example of a non-rentier policy of economic influence between 2002 and 2016, based on the provision of commercial services, the promotion of free trade, and the establishment of economic co-operation institutions at regional level.[30]

These two countries have introduced two different forms of peaceful economic policy: by buying influence on the one hand and creating controlled interdependence on the other. But, for some years, the rivalry for power has altered these patterns: buying influence has become increasingly aggressive since the "Arab Spring" and the commercial sphere has come under pressure.

The Arab Springs arose from the breeding ground of bankruptcy of some States, undermined by inequality and corruption. The shock of externally imposed liberalization policies, in particular a drastic reduction in subsidies for basic necessities, shattered the forced consensus of fragile societies in Tunisia and then in Egypt in 2011. The revolts led to constitutional and electoral processes that opened up the field to political competition, which quickly organized itself at regional level: the great

29. O. Antwi-Boateng, "The Rise of Qatar as a Soft Power and the Challenges", *European Scientific Journal*, December 2013, vol. 2, available at: https://pdfs.semanticscholar.org.
30. K. Kirişci, "The Transformation of Turkish Foreign Policy: The Rise of the Trading State", *New perspectives on Turkey*, No. 40, March 2009, p. 29-57.

confrontation between the conservative camp, led by Saudi Arabia and the United Arab Emirates, and the advocates of change, started in the electoral arena of countries in transition – Tunisia, Egypt, and continued through new wars that have broken out in Yemen, Libya and Syria.

Rentier funds were then extensively utilized for elections and wars to restore the status quo ante. This strategy has sometimes succeeded: the re-establishment of military rule in Egypt by means of Saudi subsidies is the most obvious example. Qatar's extensive financial support for Gaza is another example, although with an ambivalent effect: Qatari aid provides unwavering support for Hamas, but also helps to alleviate the burden of the economic blockade on the Gaza enclave – which is convenient for Israel. Conversely, assisted economies are at the mercy of policy reversals by their benefactors. In 2016, Saudi Arabia suspended financial aid to Lebanon in the form of armaments contracts out of concern that these funds would benefit Hezbollah. And it is only now, as a result of the political unrest the country is experiencing, that the resumption of subsidies is being raised.

It should be remembered that by deploying the concept of soft power, Joseph Nye has, since the 2000s, put the economy on the side of military power, i.e., on the side of coercion – of hard power. In the Middle East, it is no longer time for "*doux commerce*". Wars cause major disruptions in commercial networks; in addition, there is the increasingly widespread use of sanctions, reflecting the emergence of a war economy.

The sanctions regime, imposed on Iran by Washington in the 1980s in the wake of the hostage-taking at the US embassy in Tehran, is really a mechanism to explicitly fight the Islamic regime. In 2015, after 12 years of negotiations between Iran and the P5+1 group (the members of the United Nations' Security Council plus Germany), the conclusion of an agreement to control Iran's nuclear program paved the way for a normalization of relations, focusing on the economic reintegration of the Islamic Republic to encourage reformist factions. However, by late 2018, the newly elected President Trump, reintroduced even tougher sanctions and ended the exemptions for eight major importers of Iranian oil, including Turkey. These sanctions are worsening Iran's macroeconomic, fiscal and foreign imbalances, impoverishing it and preventing it from achieving the status of economic power that its natural wealth should provide.

Syria, whose economy is less well endowed, is also subject to a regime of accumulated sanctions, imposed by the United States, the European Union, and the United Nations since 2011, initially targeting Syrian government members, public institutions and the country's military, related individuals and companies, and then restricting Syria's access to the international finance system. These sanctions, which reflect a major political disagreement about the country's future, prevent the start of reconstruction work in a country that has been literally devastated by eight years of war, and two-thirds of whose population have become refugees or displaced persons.

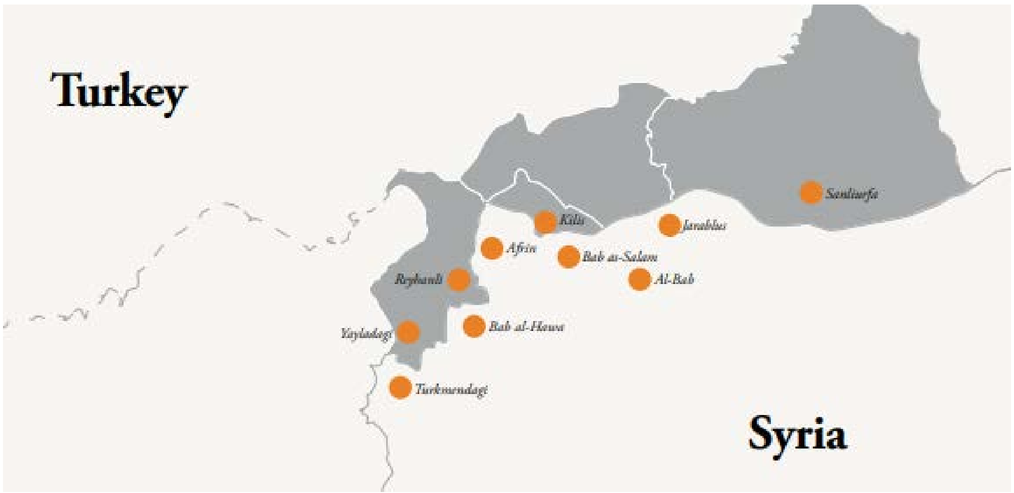
The sanctions we have just described were imposed by external powers. For the record, Turkey's aggressive attitude since 2019 has been paving the way for possible economic sanctions, both by the European Union and the United States, which disapprove of Turkish adventurism regarding the Cypriot issue, in the Syrian conflict and in Libya. However, the more recent case of measures adopted against Qatar by its partners on the Gulf Cooperation Council, along with Egypt, shows the extent of intraregional economic force. The punitive operation against Qatar is the direct result of disagreements about the view of the region's future. Doha, which is close in thinking to the Muslim Brotherhood, is rather friendly with Iran and is trying to lead a sort of alternative Sunni axis with Turkey, which has poisoned its relations with Saudi Arabia and the UAE. With a break-off in diplomatic relations and the closure of air, sea and land borders: Qatar's isolation has since been aimed at dampening the ambitions of a State, whose capacity for influence has been at work since the Arab Spring.

Organizing for the long term: effects on governance and the normative system

There are various strategies for pre-empting control of the regional order, which has been disorganized by the American withdrawal and the rise in popular protests: they can include building up a clientele through subsidies, impoverishing competing powers by refusing them aid or imposing sanctions on them; and also seeking alliances to impose partial order.

This requires effective organization. Reorienting the economy to serve foreign policy goals involves reorganizing power at an earlier stage, which can lead to changes in the governance of some States, their institutions and decision-making channels. The ongoing recentralization of economic power, in both Saudi Arabia and Turkey is a sign of this. The Saudi Crown Prince is fighting corruption by putting pressure on the kingdom's huge fortunes and is closely managing the privatization of Saudi Aramco, the success of which is crucial for the kingdom's credibility. Foreign aid is increasingly targeted: the increase in charity work by the King Salman Center or the SDRPY (Saudi Development and Reconstruction Program for Yemen) is trying to compensate for the negative effects of the war in Yemen, which is having a very negative impact on Saudi Arabia's image. The country has also become the 3rd largest donor to UNRWA (United Nations Relief and Works Agency for Palestine Refugees in the Near East, which manages international aid for Palestinian refugees): the kingdom made a generous donation of US $ 50 million to the UN agency in 2018, when it was seriously weakened by end of US funding.[31] Turkey's foreign economic policy institutions, organized by the AKP, have been reorganized after the attempted coup that struck the country in July 2016: dissident business organizations, which were very active abroad, have been dissolved and the President has resumed control of its Central Bank. Turkish official development aid, through the official agency, TIKA, traditionally supports the government's major diplomatic policies, particularly in the former Ottoman area in Africa (Algeria, Libya, Sudan, Chad and Tunisia), in the Balkans (Albania, Serbia, Bosnia and Kosovo) or in the Caucasus (Georgia). In the Middle East, it is assisted by very proactive NGOs that operate in the most difficult areas. The case of the NGO, IHH (*Insani Yardim Vakfi [IHH Humanitarian Relief Foundation])*, which became famous in 2010 for trying to break the blockade in Gaza, is nowadays particularly important in Syria: most of its logistics centers are in the Afrin canton and along the border, areas under Turkish control or offensive.

Location of Turkish NGO, IHH's Logistics Centers in Syria



Source: IHH, Syria Activity Report, 2012-2018

Producing a regional normative order is also an issue for the economic powers. From this point of view, a new trend may draw attention: the roll-out of standardized, internal economic reform plans, such as "Vision 2030", which the Saudis have widely publicized. This seems to produce a new regional normative consensus: a sort of "Rentier Consensus" as an alternative to the "Washington Consensus". The UAE had their own "Vision

31. UNRWA, "The Kingdom of Saudi Arabia Announces US$50 Million Contribution to UNRWA", *Press Release*, available: www.unrwa.org.

2030" before Saudi Arabia; Kuwait has its 'Kuwait 2035' plan, which aims to transform the country into a regional financial and commercial hub through targeted public investment. Oman has the "Vision 2040", a diversification program launched in September 2016, and based on the Malaysian model. In Qatar, the "National Vision" (2030) is also aimed at diversification leading to a "knowledge-based economy". All these countries have embarked on major infrastructure projects and are showing off their capacity for influence, with the Qatar/UAE rivalry being crystallized through the parallel marketing of the 2020 Dubai World Expo and the 2022 World Cup in Qatar (US $ 200 billion in investment).

The goal of all of them is to maintain a positive image and to revive the momentum of success built on oil and gas resources, by asserting that modern economic management is not to be conflated with the static conservation of an asset, and that the wealth already amassed must be used to promote an innovative model of economic growth. This model is held up as a general example: by managing to move away from fossil fuels altogether, the Gulf countries could reshape the world's future. This is the message that Saudi Arabia is trying to get across when it takes on the presidency of the G20 in 2002: it is assuming its 'pivotal role' in the global economy and is trying to highlight its economic transformation program among major emerging partners.[32] The kingdom therefore intends to develop its social attraction capacity, like Dubai, by opening up to tourism and popularizing its hyper-technological and connected new city projects.

From the point of view of regional institutional organizations, Saudi control of the GCC, which is reflected in the exclusi0n of Qatar, is a unilateral act of power that did not receive unanimous approval within this body and does not augur well for future progress towards integration. Saudi Arabia's leadership seems more effective within OPEC: the agreement with Russia consolidates a vulnerable hydrocarbon market, which at this stage is still, and despite everyone's declarations of intent, the key to economic and social, and therefore, political order in the Middle East.

32. A. Bohineust, "Présidence du sommet du G20 en 2020: des défis multiples pour l'Arabie saoudite", *Le Figaro*, January 6, 2020, available at: www.lefigaro.fr.

Economic Power Thwarted

The rise of economic determinants in the competition among powers in the Middle East, and the use of economic tools in the race for domination, do not lead to a new obvious hierarchy. Finally, local actors have little control over the regional economic system, growth trajectories are disrupted by internal and external factors, the persistence of a very high level of conflict thwarts economic logic. In the end, the economy seems to be a rather poor ally in a context of growing chaos.

The impact of the system: interdependencies that cannot be controlled

The Middle East's economic system has for a long time been considered to be on the margins of globalization; in any event, it did not make the rules. Saudi Arabia only joined the WTO in 2005, after 12 years of negotiations and ten years after its neighbors in the Arabian Peninsula. Apart from efforts to control hydrocarbon prices, countries in the region operate within the frameworks and use tools defined by their main clients and suppliers. Therefore, they are structurally dependent both normatively, commercially and financially.

All rentier countries are dependent on American monetary policy, because they have pegged their currencies to the dollar: Oman, Qatar, Saudi Arabia and the UAE have to align their national interest rates with the Federal Reserve's, at the risk of their own economic interests. The structure of rentier economies, which is poorly diversified, also leads to a dependency on external products and expertise. Even more seriously, the dependency on hydrocarbon prices is obviously extreme: the income earned depends on the choices of other major producers, such as the United States and Russia, and on continued demand from major clients, such as China or India. The market relationship is therefore becoming increasingly unfavorable to Arab countries, as shown by the virtual lack of reaction from operators after very high Iranian-American tensions in early 2020. While everybody feared a shock, the continued calm drastically demonstrated the relative decline in the importance of the Middle East on the world energy trading map. In an age of plenty, the oil price would no longer be a weapon, but a point of vulnerability.

At the same time, the requirement for foreign funding is increasing, without it being known whether it can be covered to the extent required. The growth in Saudi debt is revealing: until recently, the government covered its deficits by drawing on its large stock of foreign exchange reserves (USD $ 520 billion in 2018 according to Fitch, or the equivalent of 24 months of imports). However, the deficits will also be financed in future by issuing debt to national banks and on the international markets. Saudi external debt rose from 11.6% of GDP in 2013 to an expected 21.4% in 2018. The public debt which was almost zero in 2014, should reach 20% of GDP in 2018. Similarly, the UAE is now borrowing on the bond markets successfully so far: the issuance of two sovereign bonds on the international markets (US $ 10 billion by Abu Dhabi in October 2017, US $ 1 billion by Sharjah in March 2018) was largely oversubscribed. Egypt is also borrowing massively from the IMF – US $ 10 billion in disbursements in late 2018, while continuing to receive support from Saudi Arabia and the UAE. Turkey is facing a growing financial crisis: it needs to raise US $ 200 billion of foreign capital to finance its external deficit, but rising political risk and regional instability are making foreign investors cautious. FDI, which is crucial, now only accounts for 1% of GDP, and the external debt (53.4% of GDP in 2017), mainly in foreign currency, could increase significantly if depreciation of the national currency is extended.

These interdependencies intersect with the issue of alliances – and loyalties. Major political choices may be dictated by economic considerations, such as the Russian-Saudi rapprochement. Qatar has promised Turkey US $ 15 billion in investment in exchange for its support during the GCC crisis, and both countries are now at loggerheads with the rest of the Arab Peninsula states. And the Saudi and Emirati markets are now opening up to Israeli high-tech products, sealing the consolidation of an anti-Iranian axis through trade, that until a few years ago seemed totally counterintuitive.

Persistent domestic fragility: the challenge of economic and social transition

It is known that the economic models of the richest countries in the Middle East are unsustainable in the medium term from an environmental and social point of view. The depletion of hydrocarbon resources, but also of land, caused by climate change, will inevitably force them to make a radical change in their economic operation. Water resources, which are rare and much sought after, are at the heart of ever-increasing geopolitical tensions, as is the case of the development of the Nile, Tigris and Euphrates rivers. Additionally, the inadequacy of their agriculture makes the Gulf countries high importers of agricultural products, which is a major vulnerability – Qatar paid the price of this at the start of its commercial isolation.[33]

The difficulties of economic normalization are considerable everywhere. Major reform programs in the Gulf countries have admittedly resulted in the late integration of the performance culture of industrialized economies and its indicators, leading to the impressive announcements. The implementation is obviously more painstaking than the formulation: how can a production structure be established when it does not correspond to any immediate need, or optimal allocation of resources be encouraged when they are monopolized by clientelist communities situated at the heart of political power? The Saudi example illustrates these issues perfectly. Oil still provides 68% of the country's income and the rise in prices since 2016 has not been favorable to reforms. In addition to the introduction of VAT in 2018, which was considered revolutionary, and an anti-corruption campaign with unclear objectives, the Saudization plan for employment, which stipulates that Saudi nationals must account for at least 70% of employees in the private sector (in a country where youth unemployment is close to 40%), is already causing problems: it has resulted in a large exodus of expatriates (1.4 million departures since 2017), higher wage costs for private companies and a significant delay in terms of job creation. The initial public offering of Saudi Aramco, the national oil company and the economic jewel in the crown, a major operation expected since 2016 and which it was hoped would be a positive signal, was finally partially completed in late 2019, but it was only half a success: the Crown Prince had to personally get involved and put his close relatives under pressure to encourage them to subscribe.

The difficulty of economic transition, in turn, shapes a political challenge that seems to be long-lasting. Between the end of subsidies and the introduction of tax, the situation of the most vulnerable people reached breaking point. Massive demonstrations that took place at the end of 2019 in Iran, Iraq, and in Lebanon, explicitly highlighted anti-corruption slogans and the high cost of living. They can therefore be seen as a repeat of the "Spring" of 2011, which already demanded both more equality and more political participation. The Maghreb-Middle Eastern continuum seen here (with social demands in Tunisia and the Algerian *Hirak*) shows the growing fragility of the economic and social pact in the region – and, for the time

33. S. Efron, C. Fromm *et al.*, "Food Security in the Gulf Cooperation Council", Rand Corporation/Emerge 85, December 2018.

being, the inability of regimes to deal with the escalation other than with repression.

Tensions between powers as a hindrance to the economy

Social fragility, delayed reforms and an authoritarian response: these are all risk factors for would-be powers. A classic escape route is exporting problems which makes it possible to close ranks within the country. It is known that the Middle East is undermined by major, extensive and increasingly serious geopolitical tensions: diplomatic rifts, low-intensity conflicts, civil wars or wars between states affect the regional economic system, which is becoming increasingly fragmented, unpredictable and dysfunctional.

Firstly, the impact of the outbreaks of economic war should be noted. The effect of sanctions is difficult to assess accurately, but the tool can be counter-productive from a political, as well as an economic point of view. The dispute within the GCC is a good example of this. The blockade imposed on Qatar undoubtedly initially cost it dear: to cover the estimated USD $ 40 billion capital flight, the same amount was injected from its own sovereign wealth fund back into the local financial market. The gas Emirate then managed to increase the diversification of its economy under pressure and quickly refocus its partnerships, relying on its Asian clients (Japan was its biggest customer in 2018) and restructuring its trade routes to ease the blockade and strengthen its relations with India, Pakistan and Turkey. Some analysts present the situation as a unique case, illustrating the virtuous effect of sanctions on the country in question; nevertheless, Saudi and Emirati companies and banks have suffered from this dramatic dispute, which has affected both trade flows and these operators' reputation for reliability.[34] Similarly, although the sanctions against Iran have impoverished the country, they also hamper its established partners: Dubai's role as a hub for Iranian business has been called into question,[35] Turkey has lost its waiver, even though it was dependent on Iran for up to 30% of its oil imports. Initially, it had to turn to Russia as compensation. In time, American sanctions could also increase Russia' and China's involvement in the

34. Y. Belfellah, "Comment le Qatar a transformé l'embargo en opportunité", *Le Cercle des Échos*, June 5, 2018, available at: www.lesechos.fr ; and "Crise du Golfe: blocus pour le Qatar, pertes pour l'Arabie saoudite et les Émirats arabes Unis", *Challenges.fr*, January 29, 2018, available at: www.challenges.fr.

35. A. England and S. Kerr, "US Sanctions Put Chill on Iranian Trade with UAE", *Financial Times*, July 26, 2019, available at: www.ft.com.

development of Iran's oil and gas sector, accelerating burgeoning major geopolitical reconfigurations.

Open military conflicts, which are increasing in the region, are also obviously having major consequences on economic environment. Above all, they put a burden on state budgets. The arms race is becoming more widespread: arms purchases represented 10% of Iraq's, Oman's and Saudi Arabia's budget in 2018, and slightly less for Qatar and the UAE. This expenditure is all the more unfortunate as the most expensive equipment is not necessarily the most effective, as is shown by the relative military under-performance of the Saudi army in Yemen. Iran, which is less wealthy and whose equipment is largely obsolete, compensates for this shortcoming by the variety of its weaponry, the consistency of its military doctrine, and the effectiveness of its soldiers and mercenaries.[36]

The negative economic repercussions of fighting are subsequently staggering: large-scale destruction, flows of refugees, misappropriation of resources, establishment of corrupt economic networks, etc.... The World Bank, which regularly mentions wars as one of the causes of low growth in the Middle East, tried to measure their effect on regional capital in 2016, by trying to estimate the material and human damage.[37] The Syrian civil war and the emergence of Daesh have particularly affected the economies of Syria and Iraq: according to the investigation's estimates, the loss of production due to the war in Syria, may have been from 2016 in the region of US $ 35 billion, or the equivalent of Syria's GDP in 2007. The impact was also significant in neighboring countries of Lebanon, Jordan and Turkey, particularly with forced population displacement: the World Bank, for example, estimates that 630,000 Syrian refugees based in Jordan cost the country 6% of its GDP and a quarter of its annual tax revenues at the time. The economic effects of the war in Libya and Yemen are more difficult to assess because of the lack of reliable data. This last problem, which is widespread throughout the Middle East, is worsened by the long-term establishment of a gray economy fueled by the conflicts themselves. Trafficking – financial, goods, human- appears and is consolidated as soon as the wars erupt to the point that it is tempting to explain the continuing conflict through the existence of war profiteers, who exploit the territorial

36. A. Cordesman, "The Arab Gulf States and Iran: Military Spending, Modernization, and the Shifting Military Balance", *CSIS Report*, Second Working Draft, December 12, 2018, available at: www.csis.org.

37. World Bank, "Les effets économiques de la guerre et de la paix" [The Economic Affects of War and Peace], *Bulletin trimestriel d'information économique de la région MENA*, No. 6, January 2016, available at :www.banquemondiale.org.

breakdowns to control the mafia economic networks.[38] For example, the fledgling recovery of the Syrian economy has already resulted in a system of payments intended to reward local communities and networks that supported Bashar Al-Assad through to his victory.[39]

The issue of reconstruction is finally emerging in the aftermath of the war. The cost of the Syrian reconstruction is estimated at between US $200 and $400 billion. In addition to repairing the material damage (a third of the housing stock has sustained damage and infrastructure has been devastated in combat zones), the challenge will be to convince displaced people and refugees to return to their homes and enable them to resume work. Reconstruction efforts should not be restricted to re-establishing lost production, but should aim more ambitiously at avoiding prolonged, and possibly permanent, stagnation of the economy. The Iraqi precedent is a clear example: in this country, which remains one of the most corrupt in the world (162nd out of 180 in the 2019 *Transparency International* ranking), everything has come to a standstill due to lack of funds. The financing of various post-conflict projects is currently raising problems everywhere in the Middle East: Bashar's sponsors – Russia and Iran will therefore not be able to invest in Syria to the extent required and are counting on action by the European Union, which is impossible at this stage since the regime is still subject to Western sanctions.

Successful reconstruction is a worthwhile investment, as the case of the Lebanese recovery on Saudi life-support in the 1990s illustrates. Conversely, the continuing situations of material and social chaos are a clear threat to regional stability in the medium term: Iraq, which has constantly slipped back into war over the last 15 years, is now a virtually failed state and the arena where foreign powers have again chosen to settle their accounts, or a hotbed of ongoing geopolitical risk.

38. C. Cheng, T. Eaton, L. Khatib, R. Mansour, P. Salisbury and J. Yazigi, "Conflict Economies in the Middle East and North Africa", *Chatham House Report*, June 2019.
39. D. Schmid, "Syrie: peut-on déjà reconstruire? ", *in* T. de Montbrial and D. David (eds.), *RAMSES 2020*, Paris: Ifri/Dunod, 2019, p. 242-245.

Conclusion: Incomplete Powers

This brief study of economic power in the Middle East finally leads to the acknowledgment of the limits of this power. The classical realist hierarchy is not structurally disrupted by examination of the economic data. To return to the triad of “resources-relations-structure” referred to at the beginning, it can be considered that the most prosperous are the rentier states, whose resources are being depleted; that the richest among them, or the oil states of the Arabian peninsula, are still unfamiliar with exercising power to really effectively manage the economic tool abroad; and that none of them has been willing or managed to impose collective rules to their advantage on a regional system that remains largely dysfunctional.

The basis of economic power in the Middle East is in fact outmoded, even by contemporary standards in geoeconomics, which places industrial economies at the forefront and incorporates the dynamism of the private sector alongside states’ guidance and decision-making capacity. The rentier issue, which connects politics to the economy in order to better control the former, ends up discrediting both here, leading to the inevitable social unrest. Poorly controlled over-investment in conflicts is politically insecure and notoriously counter-productive from an economic point of view, as it maintains regional stagnation and contributes to the long-term establishment of economic anomalies, areas of trafficking and unfair strategic subsidies, in the area. The Middle East therefore has at least two potential economic powers, two phantom economies, Iran and Iraq, whose fate is constrained in the long term by domestic and geopolitical tensions that are insurmountable for the time being.

The destructive competition of power, which currently characterizes the Middle East, impacts significantly on the sub-region’s growth. It is not known how long it will take for a new balance of power to emerge, as, in the middle of nationalist rivalries, no hegemon or regional, disciplinary power seems to be able to prevail. The intervention of a foreign hegemon could be decisive once again; the United States has for a long time assumed this responsibility politically and militarily, but now wishes to withdraw from it. It remains to be seen whether it will still be able to define the rules of a virtuous economic playing field in the region or whether China will play this role in the future.

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