

The Impacts of Global Energy Transition on Middle East Politics

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Abstract: Due to the symbiotic relations between oil and the contemporary Middle East, a global energy transition is bound to affect the Middle East's international status and the power structure among its countries. The power gap between rich and poor countries will widen, and the "big politics of small states" in countries such as the United Arab Emirates and Qatar may become more prominent. As economic development has become the top priority of national strategies, many hot spots in the Middle East have cooled down as relations between rival countries have eased and there are even signs of multilateral economic cooperation. Meanwhile, there are signs of vicious economic competition among related countries. With the decline of the Middle East's global importance, the United States and Europe are moving further away while the interdependence between Asia and the Middle East is increasing. Reforms to tackle the energy transition in the Middle East are a race against time, difficult, and uncertain, but the signs so far are positive.

Keywords: energy transition, Middle East politics, oil power

In the history of global energy transition, 2021 is a milestone year as sovereign countries and multinational companies have launched ambitious new energy visions, and energy transition has started trending. In the global energy structure in 2020, oil accounted for 33.1 percent, followed by coal (27 percent), natural gas (24.3 percent), renewable energy (11.4 percent), and nuclear power (4.3 percent). If the world is to achieve carbon neutrality by 2050, renewable energy must play a leading role, and petrochemical energy

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must play a supporting role. However, the reality is not optimistic. A report published in October 2021 by the International Energy Agency believes that if countries can meet their current commitments, oil consumption will drop from 91 million barrels per day in 2020 to 77 million barrels per day in 2050; if carbon neutrality is achieved in 2050, oil demand will decline to 24 million barrels per day.¹ This is the most optimistic forecast for new energy. The US Energy Information Administration's 2021 report believes that if current policy and technology trends remain unchanged, energy consumption will increase by 50 percent in 2050, carbon emissions will also increase, and the proportion of renewable energy will increase significantly from 15 percent to about 30 percent, the share of coal and natural gas will shrink slightly, while oil will still account for about 30 percent.² This is a pessimistic forecast for new energy. The rhythm, method, and impact of energy transition are uncertain, but the reduction of the proportion of petrochemical energy and the increase of renewable energy are long-term trends. The assumption is risky because energy transition is inherently uncertain, so the resulting political implications are even more elusive. This paper takes the energy transition as a hypothetical premise and attempts to reason about its impact on Middle Eastern politics.

Power Transition

Power is the foundation and core of politics, and the political impact of energy transition is first reflected in the structure and balance of power. The current power structure in the Middle East is from several combining factors, of which oil is the key factor. In the 1950s, Egypt and other republics played a leading role in Middle Eastern politics with their industrial and ideological advantages. After the oil price surge in the 1970s, countries such as Saudi Arabia dominated Middle Eastern politics with petrodollars. After 2000, the United Arab Emirates (UAE), Qatar, and other countries stood out with new governance models, new economic models, and new diplomatic roles based

¹ "Report Extract: Fuels: Old and New," accessed December 13, 2021, <https://www.iea.org/reports/world-energy-outlook-2021/fuels-old-and-new>.

² *International Energy Outlook 2021*, U.S. Energy Information Administration, October 6, 2021, 9-14.

on petrodollars, creating “small country, big politics.” In the oil era, Middle Eastern politics is influenced by oil, even dominated by it; in the energy transition era, petrodollars, national governance models, and the process of economic transformation will jointly determine the Middle Eastern power structure.

Oil has been a cornerstone of the Middle East’s political, economical, and social structure for nearly a century, allowing the region to enjoy great international political influence. As the importance of oil declines, the Middle East’s international influence is bound to suffer. American energy expert, Daniel Yergin, asserted that “the transition will have an enormous global economic impact, but it will also bring about major changes in the map of global power. China is poised to be the big winner, Russia and Middle East oil exporters the big losers. The US is likely to fall somewhere in between.”¹ As the dominance of the global energy market has disappeared, the influence of the Middle East has declined. However, the oil-producing countries in the Middle East are affected to different degrees and have different response capabilities. Power transfer among countries within the region is inevitable.

In the process of energy transition, oil and natural gas remain the main source of financial resources for relevant countries in the short- and medium-term, and they are the basic factors affecting the transfer of power. Energy transition is a long process. It took 200 years for coal to replace plant fuels, and 100 years for oil to replace coal. Even in the most optimistic scenario, the world will still need 24 million barrels of oil per day in 2050. In this process, the Middle East enjoys a competitive advantage due to its large oil reserves, low cost, and low carbon intensity in the production process. Oil from other parts of the world will be the first to withdraw from the market, and the Middle East’s market share will increase instead. In the Middle East, Saudi Arabia, the UAE, and Qatar are in favorable situations. In contrast, Iran, Algeria, Oman, and Bahrain are in trouble.

Saudi Arabia, Iraq, the UAE, and Kuwait have a lot of proven oil reserves: Saudi Arabia has 261.6 billion barrels, Iraq has 145 billion barrels, the UAE has

¹ Daniel Yergin, “The New Geopolitics of Energy,” September 11, 2020, accessed January 18, 2022, <https://www.wsj.com/articles/the-new-geopolitics-of-energy-11599836521>.

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107 billion barrels, and Kuwait has 101.5 billion barrels in 2020. The production costs are low, being US\$3, US\$6, and US\$7 in Saudi Arabia, Iraq, and the UAE in 2020, respectively. These countries' oil reserves will be abundant in the next 50 years. Regarding cost, the four countries can squeeze out the rest of the world's producing countries from the global market. In contrast, countries such as Algeria, Oman, and Bahrain are not as lucky. In 2020, Algeria's reserves were 12.2 billion barrels with a production cost of US\$15; Oman's reserves were 5.3 billion barrels and production cost was US\$15.¹ Based on 2019 production estimates, Oman's oil will dry up in the next 25 years or so. Bahrain's reserves, which are only 180 million barrels, are nearly depleted. Regarding population, Algeria and Iraq have more people and less money, and their per capita GDP in 2020 was US\$3,254 and US\$4,160, respectively. Qatar, the UAE, Kuwait, and Saudi Arabia have fewer people and more money, and their per capita GDP in 2020 was US\$50,805, US\$38,661, US\$24,176, and US\$19,996, respectively.² For carbon emission intensity, Saudi Arabia claims to be the second-lowest from global oil production (behind Denmark), while Iraq is the highest in the Middle East. Compared with oil, natural gas is more environmentally friendly, so its demand will increase. Qatar ranks third globally in proven natural gas reserves, accounting for 14 percent of the world's reserves in 2020, and ranks first in export volume. It is also the world's largest supplier of liquefied natural gas. Due to its huge reserves and production capacity, Saudi Arabia is still able to make a difference in the overall decline of the oil industry. Qatar, with its large natural gas reserves, high production capacity, and best geographical location, is an important player in the natural gas market. Iran had proven oil reserves of 208.6 billion barrels in 2020 and a US\$15 production cost while its proven natural gas reserves in 2020 were 34 trillion cubic meters (accounting for 20 percent of the world).³ Its output ranks third globally, but

¹ Knoema, "The Cost of Oil Production by Country," accessed December 1, 2021, <https://cn.knoema.com/infographics/vyronoe/cost-of-oil-production-by-country>.

² "GDP Per Capita (Current US\$)-Middle East & North Africa," accessed December 1, 2021, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=ZQ>.

³ "Leading Countries by Proved Natural Gas Reserves Worldwide in 2010 and 2020," accessed December 1, 2021, <https://www.statista.com/statistics/265329/countries-with-the-largest-natural-gas-reserves/>.

during the last four decades, it has suffered from international sanctions. Iraq also has a lot of resources, but investments are difficult because of the poor domestic political environment.

Some Middle Eastern countries have capital advantages in new energy, but the development trajectory of new energy is still unclear, which may be the most uncertain factor in the transfer of power. Saudi Arabia, the UAE, Kuwait, and Qatar's foreign exchange reserves are US\$500 billion, US\$108 billion, US\$45 billion, and US\$38 billion, respectively, and sovereign wealth funds are US\$400 billion, US\$580 billion, US\$560 billion, and US\$250 billion, respectively.¹ Oil exporters should not only invest in the oil industry to seize the final market share but also invest in new energy to seize the opportunity. At this time, national financial resources are particularly important.

Rich countries have seized the opportunity to invest in new energy. Investing in green hydrogen, blue hydrogen, and solar energy should be priorities for Middle Eastern countries. Saudi Arabia, the UAE, and Oman have all announced large-scale hydrogen production plans. The raw materials of blue and green hydrogen are fossil energy. Clean energy could be produced through carbon capture and carbon storage. In this regard, the Gulf countries have resources, technology, experience, and equipment. Concerning lithium production, Saudi Arabia and the UAE have advantages. Europe plans to build large-scale lithium battery production capacities by 2030, and Saudi Arabia and the UAE may become suppliers. During the energy transition, the Middle East is still highly dependent on oil and natural gas exports, while also being important consumers. In 2013, the global per capita annual oil consumption was 4.7 barrels, OECD countries per capita were 13.3 barrels, while Saudi Arabia was 35.8 barrels, the UAE was 30 barrels, and Kuwait was 47.4 barrels.² Regarding rising population size and per capita energy consumption, if new energy cannot be rapidly produced, the Gulf countries will struggle to be self-sufficient in oil in a few years, let alone export. Therefore, new energy

¹ "Top 100 Largest Sovereign Wealth Fund Rankings by Total Assets," accessed December 11, 2020, <https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund>.

² "The Politics of Rentier States in the Gulf," *POMEPS Studies*, Project on Middle East Political Science, January 2019, 22.

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production is of particular significance to the Gulf oil-producing countries.

Whether it is the rational use of old energy or the effective development of new energy, good national governance is required, and governance capacity is decisive in power transfer. The UAE and Qatar have relatively mature political models, high social flexibility, flexible internal and external policies, and the best conditions for coping with energy transition. During the past three decades, the UAE and Qatar models have mainly been characterized by centralized power, fast and flexible decision-making, religious moderation, and depoliticization. Citizens enjoy social freedom but not political freedom, let alone political democracy. Economically, the UAE and Qatar are also relatively successful and have achieved economic diversification. The ratio of the UAE citizens to foreign population is 1:8. The UAE relies on foreign labor to support its economic competitiveness. All natives work in government departments and hardly create value directly. The UAE's economic transformation started early. In 2007, the UAE proposed the Abu Dhabi Economic Vision 2030, and Saudi Arabia proposed Saudi Arabia's Vision 2030 in 2016. At present, the political and economic transformation of the Gulf countries is imitating the UAE and Qatar models, but have not reached those two countries' level of governance.

Rich countries enjoy different degrees of advantages, and poor countries, especially non-oil producing ones, are in a miserable situation. The power gap between Middle Eastern countries will further widen. Within the oil-producing countries, countries with large populations, weak governance capabilities, and poor external environments, such as Iraq, Iran, and Algeria, are under great pressure. Countries such as Bahrain and Oman have little oil and money, and there is no obvious change in national governance and economic transformation. Its influence is declining. Countries that traditionally depend on oil-producing countries for aid and job opportunities suffer the most like Palestine, Yemen, Jordan, and Lebanon. Life in these countries has become increasingly poor since oil price fell in 2014.

The prospects of Saudi Arabia, the UAE, Qatar, and Kuwait are promising. Saudi Arabia has a large size and a solid foundation. The UAE and Qatar have flexible political and economic models, and their influence is on the rise, especially Qatar. On December 3, 2018, Qatar announced its withdrawal from the Organization of the Petroleum Exporting Countries (OPEC) and shifted

its focus to natural gas. It may form a globally influential natural gas alliance with Russia, Turkmenistan, Iran, and other countries, and its voice in the international energy market is expected to grow. In 2019, 83 percent of Qatar's natural gas exports were liquefied gas, which is more flexible than pipeline gas exports and can easily adapt to market changes. In contrast, 85 percent of Algeria's natural gas exports are exported to Europe, and 65 percent are exported through pipelines. With European demand for natural gas falling, the situation is not promising. In 2017, Saudi Arabia, Bahrain, the UAE, and Egypt jointly sanctioned Qatar, but were forced to lift the sanctions in 2021, showing that Qatar is rising.

Policy Change

A power transfer is a long-term process where the relevant countries are not waiting for the results but taking the initiative to implement policies. These countries want to influence the power transfer process and also be winners in the end. On the one hand, all countries have put economic construction as the top priority of their national strategies, and the positions of politics, security, and ideology have moved back accordingly. On the other hand, homogeneous economic competition among countries has become more obvious. Middle Eastern politics is at a crossroads. The good news is that economic cooperation or healthy economic competition may replace or weaken the original ideology, sectarianism, and hegemonic competition, and relations between countries have entered a period of relative relaxation. The bad news is that vicious economic competition may intensify and the Middle East has plunged into a new turbulent situation.

Middle Eastern politics has shifted its focus from political security to economic security, and relevant parties have attempted to create a favorable international environment for economic growth. Wars, subversions, infiltrations, coups, and sectarian conflicts have made Middle Eastern countries highly vigilant about security affairs. Such excessive vigilance has formed a vicious circle. The domestic affairs of one country can often involve the security affairs of other countries. At the international level, the Middle East is the region most severely interfered by extraterritorial powers. After the Cold War, the

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four regional wars in the Gulf, Iraq, Libya, and Syria have involved almost all major world powers. The situation has finally changed now. The original contradictions and problems still exist, but their importance and urgency have declined. The desire of major powers to intervene in the Middle East has declined, and the desire of regional countries to play political games has weakened. The New York Times columnist, Thomas Friedman, said that when the world is withdrawing from fossil energy, when the population of young people under 30 in Arab countries is increasing fast, and when climate change is becoming more and more urgent, the performance of national leaders depends on their ability to deal with these problems, not their ability to compete with regional states or great powers.¹

Since the turmoil in Arab countries from 2011, the Middle East has been divided into four camps according to sectarian affiliation and political divisions: Shia bloc with Iran as a core country, a political Islam bloc formed by Turkey and Qatar, a bloc of conservative countries formed by Saudi Arabia and the UAE, and Israel, the only Jewish state. The four camps are involved in every regional conflict, from civil wars in Syria, Yemen, and Libya, to civil unrest in Lebanon and Iraq, to the Gaza conflict and Qatar crisis. Behind the four camps are the Middle East's four main ethnic groups: Arab, Persian, Turkic, and Jewish. Ethnic, religious, and political contradictions are intertwined. Over the past decade, Saudi Arabia, the UAE, Israel, Turkey, and Iran have all adopted offensive and expansionary diplomatic policies. Starting from 2021, the policies of the relevant countries have been adjusted, and political struggles have shown signs of easing. The reasons for the moderation are varied and complex, but the economy is an important factor. On October 15, 2021, the foreign minister of Saudi Arabia, Prince Faisal bin Farhan Al Saud, said that "the leadership has a clear policy that the priority is prosperity, building the country, Vision 2030 [reform plan], and you can't deliver those things with a region in turmoil."² It is the first time in the history of the modern Middle East that

¹ Thomas L. Friedman, "Biden and Mother Nature Have Reshaped the Middle East," accessed December 5, 2021, <https://www.nytimes.com/2021/10/26/opinion/middle-east-climate-change.html>.

² Andrew England, "Saudi Arabia 'Serious' about Talks with Iran," accessed January 20, 2022, <https://www.ft.com/content/8665b1d2-b0ca-4dd0-8a18-837e3ad5b110>.

economics, rather than politics and security, has become the nation's priority.

On September 15, 2020, the UAE, Bahrain, and Israel signed the Abraham Accords, which have significantly eased relations between parts of the Arab world and Israel. Different from the establishment of diplomatic relations between Egypt and Israel in 1979 and Jordan and Israel in 1994, the Abraham Accords have great impact on economic benefits. Israel and the UAE have signed more than 70 cooperation documents covering finance, energy, sports, agriculture, shipping, space, and medical care. The UAE capital of US\$10 billion has flowed to Israel, and bilateral trade may reach US\$1 billion in 2021. Before the establishment of diplomatic relations, the average annual trade volume between the two countries was only about US\$5 million. According to the RAND Corporation of the US, if Israel can sign bilateral free trade agreements with the four Arab countries in the next decade, it will create 46,000 job opportunities and US\$24 billion in economic growth for the four Arab countries while 19,000 job opportunities and US\$46 billion of economic growth for Israel. If Israel signs multilateral free trade agreements with these countries, it will create 150,000 employment opportunities for the four Arab countries and US\$75 billion of economic growth while 30,000 job opportunities and US\$73 billion economic growth for Israel.¹

On January 11, 2021, Qatar's Amir Tamim was invited to visit Saudi Arabia to attend the Gulf Cooperation Council (GCC) summit, restoring diplomatic relations between the two countries since ties were severed in 2017. On December 8, 2021, Saudi Arabia's de facto ruler, Crown Prince Mohammed bin Salman, visited Doha, symbolizing the full recovery of high-level exchanges between the two countries. Financial Times columnist, David Gardner, explained that it is starting to avoid geopolitical competition and turning to economic competition.² Bilateral ties began to thaw in August 2021, when the UAE's national security adviser, Sheikh Tahnoun bin Zayed Al Nahyan, visited Turkey. On November 24, 2021, Abu Dhabi's Crown

¹ Daniel Egel, Shira Efron and Linda Robinson, *Peace Dividend: Widening the Economic Growth and Development Benefits of the Abraham Accords*, RAND, March 2021, 3-4.

² David Gardner, "Behind the Smiles, Competition Heats Up in the Gulf," accessed October 18, 2021, <https://www.ft.com/content/be6fe7c4-c121-4db4-a8b8-4222f1b2f0af>.

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Prince Sheikh Mohammed bin Zayed Al Nahyan paid an official visit to Turkey and signed 10 cooperation agreements in energy, environment, finance, and trade, and promised to reserve US\$10 billion in investment funds for Turkey. On August 28, 2021, France and Iraq initiated the Baghdad summit, where Saudi Arabia, Iran, Turkey, Egypt, Jordan, Kuwait, Qatar, and other countries participated, during which the UAE and Iranian leaders held bilateral conferences, and the foreign ministers of Saudi Arabia and Iran also had bilateral meetings, the first since diplomatic ties were severed in 2016. In early December 2021, a UAE company signed a contract to build a power plant for Iran, which is also surprising. The diplomatic moves show that relations between the four major camps have improved, except for Iran and Israel.

There have been plans about multilateral cooperation frameworks in energy, trade, and investment at the regional level. Concerning new energy, transnational power grids have broad prospects. At present, only 4 percent of the world's electricity is traded across borders, while oil accounts for 46 percent and natural gas is 24 percent. The European Union has proposed the idea of a single power grid.¹ Although the Middle East does not expect a single power grid, multinational power grids are possible. On October 6, 2021, the EHV DC transmission line project between Egypt and Saudi Arabia was signed, becoming the Middle East's DC transmission project with the highest voltage level and longest transmission distance. On June 27, 2021, Egypt, Jordan, and Iraq held their fourth summit in two years to prepare for an economic union. India, Israel, the UAE, and the US launched a new quadrilateral economic forum in October 2021.

Vicious economic competition has emerged, which runs counter to the political traditions of the Gulf Arab countries. Traditionally, Saudi Arabia has transferred economic interests to small Gulf countries to gain political recognition and dominance and build common defense security. Big and small countries have unequal patron-client relations. Economic ties between the UAE, Bahrain, and Saudi Arabia, with Saudi acquiescence or support, have been very beneficial for the two small countries over the years. The UAE is the hub of

¹ "The First Big Energy Shock of the Green Era," accessed October 18, 2021, <https://www.economist.com/leaders/2021/10/16/the-first-big-energy-shock-of-the-green-era>.

Saudi Arabia's foreign trade, transportation, and investment. In 2020, the UAE exported US\$24 billion to Saudi Arabia and imported only US\$6.85 billion. More than US\$21 billion of Saudi trade and capital flowed into the UAE. Saudi Arabia has given Bahrain more favorable economic treatment. Since 1996, Saudi Arabia has donated all the production of oil fields shared by the two countries (200,000 barrels per day) to Bahrain, which is invested and operated by Saudi Aramco, and the income is divided equally between the two countries. This is Bahrain's most important oil revenue.¹ In 2018, Saudi Arabia, the UAE, and Kuwait also provided financial assistance worth US\$10 billion to Bahrain. In early 2021, when Bahrain's finances faced another crisis, Saudi Arabia and other countries continued offering assistance. However, Saudi Arabia and the small Gulf countries, especially the UAE, have started economic competition and even rivalry since 2021.

First of all, the Gulf countries have invested in oil and gas production. Faced with oil's uncertainty in the future, the simplest and crudest way for oil-producing countries to avoid risks is to expand production capacity and prevent their oil reserves from turning into waste. In July 2021, a public conflict broke out between Saudi Arabia and the UAE at the OPEC meeting. On the surface, the UAE was dissatisfied with its quota. However, what matters was that more people believe that oil demand peak will come within a decade, which means the logic of oil production has completely changed.² Faced with the arrival of peak oil demand, the Gulf oil-producing countries are not reducing production but expanding production capacity. This is a zero-sum game. In March 2020, the international oil market was oversupplied, but Saudi Arabia and Russia increased production significantly, rehearsing vicious competition in the oil market in advance. If oil prices fall in the future and oil-producing countries with high oil costs are squeezed out of the market, competition among the Gulf countries will remain. The UAE announced to invest US\$122 billion from 2021 to 2025 to increase oil production capacity from 3.5 million barrels per day in

¹ *Bahrain: Unrest, Security, and U. S. Policy*, Congressional Research Service, April 20, 2021, 21.

² David Sherppard, "Opec Rift Is a Foretaste of Things to Come," accessed November 10, 2021, <https://www.ft.com/content/a380d0d8-6d95-49c0-b008-62087f22a9e6>.

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2018 to 5 million barrels in 2030. Saudi Arabia plans to invest US\$300 billion by 2027 to increase production capacity from 12 million barrels per day to 13 million barrels. Kuwait is preparing to increase from 3.15 million barrels to 4.75 million barrels in 2040. As early as January 1, 2019, Qatar withdrew from OPEC, becoming the first Middle Eastern country to formally withdraw since its establishment. Concurrently, Qatar announced that it will not be restricted by OPEC's production cuts, and will increase its oil production from 480,000 barrels to 650,000 barrels. It will increase its natural gas production from 77 million tons to 110 million tons as soon as possible, becoming the first Gulf country to increase production. In July 2021, Saudi Arabia's minister of energy vowed to drill every last molecule of oil.

Second, Saudi Arabia is determined to take job opportunities back from the UAE and Qatar to alleviate its employment pressure. According to Saudi Arabia's 2018 general statistics office data, unemployment rate was at 12.8 percent, of which female and youth unemployment rates were 33.1 percent and 31.3 percent, respectively. More importantly, Saudi Arabia's labor force participation rate is only 40.3 percent, and employed people account for 35.1 percent of active labor forces, while it is 60 percent in the OECD. Even if other conditions do not improve, if Saudi Arabia can reach the employment level of the OECD, it will increase revenue, which would be equivalent to oil exports.¹ Saudi Arabia has planned to rebuild fair economic relations. Vicious competition is inevitable among Gulf countries due to economic homogeneity and poor complementarity. There are more than 40 economic free zones in the UAE. The Jebel Ali Free Zone in Dubai claims to have created 135,000 jobs and its output value accounts for 28 percent of Dubai's GDP. The products of the economic free zone could be exported to Saudi Arabia duty-free. The employees in the free zone are mainly foreigners because the UAE and Qatar have almost no restrictions on the employment of foreign workers in the free zone. In January 2021, Saudi Arabia announced the establishment of 20 new economic free zones, promising to provide investors with a more favorable regulatory environment. On July 3, 2021, Saudi Arabia suddenly announced

¹ *The Politics of Rentier States in the Gulf*, Project on Middle East Political Science, January 2019, 26.

that if companies in the Gulf countries employ less than 10 percent–25 percent of their own labor, Saudi Arabia will impose an import tax of 3 percent–15 percent. UAE natives only accounts for 10 percent of the country's population, so it is almost impossible to meet Saudi Arabia's requirements. This is an open declaration of war on the UAE's economic free zone. One of the advantages of the UAE Free Zone is direct access to Saudi Arabia's market, which is the UAE's largest export market. After the announcement of the new policy, the UAE's exports to Saudi Arabia fell by a third in a month. Simultaneously, the imposition of tariffs is also Saudi Arabia's response to the establishment of diplomatic relations between the UAE and Israel, as Saudi Arabia is concerned of Israeli goods entering the Gulf market through the UAE. The UAE has taken the first step in improving relations with Israel, which is to enhance its economic competitiveness through high-tech cooperation. The UAE has also extended visas for foreign workers, allowed foreign companies to hold wholly-owned shares, and lifted bans on alcohol and premarital cohabitation.

Third, the competition among Gulf countries in finance, trade, transport, and entertainment has intensified. Most multinational companies have their Middle Eastern headquarters in Dubai. Saudi Arabia is the largest economy and consumer market in the Middle East, and Dubai's prosperity depends to a certain extent on Saudi Arabia. Now, Saudi Arabia wants to grab the resource back. Although Saudi Arabia's social and institutional environment is not as good as the UAE, it is a large economy. According to the World Bank's *Doing Business 2020*, the UAE ranked 16th globally and Saudi Arabia was 62nd. In February 2021, Saudi Arabia announced that multinational companies that have not relocated their Middle Eastern headquarters to Saudi Arabia by 2024 will no longer be able to obtain contracts from the Saudi government, and multinational companies headquartered in Riyadh will also receive financial and other policy support. At the Future Investment Initiative conference on October 26, 2021, Saudi Arabia announced that 44 multinational companies had applied to move their headquarters to Riyadh. Emirates and Qatar Airways dominate the air transit between the eastern and western hemispheres, and Dubai has been the world's busiest international airport for seven consecutive years. Saudi Arabia has established a second national airline, which will make Saudi Arabia the fifth largest air transport country globally, connecting 250 destinations. The Dubai

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Port Authority's business involves 80 destinations in 40 countries around the world. Saudi Arabia plans to invest in at least three international ports in the next five years, with each investment of more than US\$500 million. Qatar will host the 2022 World Cup, and Saudi Arabia is considering bidding for the 2030 World Cup, and has invested US\$1.5 billion to apply for various sports events.

The strategic focus of the Gulf countries has shifted to economic construction, which is reflected in foreign policies. There are both positive and negative effects. The vicious economic competition has not caused the breakdown of relations between countries. Although Saudi Arabia and the UAE have differences, they are still allies. Economic competition, and even struggles, will have less destructive effects than ideology, sectarianism, and hegemonic competition. The best outcome is for political and security struggles to ease as regional economic integration progresses.

However, neither conflicts nor a single hotspot has been truly resolved in the Middle East. The worst prospect may be that old conflicts remain unresolved, while economic competition and turmoil intensifies. If the economic competition between Saudi Arabia and the UAE, the two largest countries in the GCC, intensifies, the GCC may exist in name only with the possibility of military conflict also existing. There was a complex background for Iraq's invasion of Kuwait in 1990, and one of the reasons was the competition for resources by oil-producing countries in the era of low oil prices.

Global Impacts

Global energy transition reshapes Middle Eastern politics, which, in turn, affects global politics, especially directly affecting regions with important interests in the Middle East, such as the US, Europe, Russia, and China. After World War II (WWII), oil power became an important part of international politics, and Middle Eastern politics was completely rewritten. This region, which has always been remote, poor, and backward in modern times, suddenly has global power, wealth, and influence. Almost concurrently, the US abandoned the Middle East strategy of offshore balancing and opened an era of large-scale direct military intervention. Almost in sync with the energy transition era, the US has begun the process of strategic contraction in the

Middle East. Even if the cause-effect relationship between the major powers' Middle East strategies and oil cannot be proved, at least there is a close correlation between the two. As the luster of oil power fades, a shift in power at the international level is already approaching. The oil-based power structure and power relations will inevitably change in the energy transition or post-oil era.

In time, the weight of the Middle East in global politics may rise. Due to the uncertain prospects of the oil market, developed countries and multinational companies are reducing investment in upstream oil industries, while Middle Eastern countries are increasing investment. During this transition period, the international share of Middle Eastern oil will grow as oil with high production costs is withdrawn from the market. In 2020, the Middle East's oil production accounted for 34 percent of global oil production, and the possibility of over 50 percent in the future cannot be ruled out. In the early 1970s, when Middle Eastern oil was making waves in the international market, its production only accounted for 41 percent.

In the long run, a decline in the importance of the Middle East in global politics is inevitable. The share of oil in primary energy consumption and the share of Middle Eastern oil in the international oil market have both declined. The proportion of oil in primary energy consumption dropped from 46 percent in 1980 to 33 percent in 2019. Middle Eastern oil accounted for 50 percent of international oil exports in 1980 and 38 percent in 2018. If carbon neutrality is to be achieved by 2050, the share of oil in primary energy consumption should drop from 33.1 percent in 2020 to 4 percent.¹ Although this is an optimistic prediction, it still represents the direction of development. At that time, the Middle East will have little impact on the energy pattern and international politics. If oil is no longer strategically important, the Middle East will have limited significance. Take the US as an example. In 2019, the US direct investment stock in the Middle East was US\$86.6 billion, accounting for 1.5 percent of its global stock (US\$5.95 trillion); the trade volume with the Middle East was US\$157.4 billion, accounting for 3.7 percent of global foreign trade. If

¹ *World Energy Transitions Outlook*, International Renewable Energy Agency, 2021, 14.

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Israel is excluded, the Middle East accounts for only 2.6 percent of US foreign trade and 0.098 percent of US investment.¹ Economically speaking, the Middle East is insignificant to the US.

With the Middle East's decline in global importance, the US, Europe, and the Middle East will drift apart, raising the interdependence between Asia and the Middle East. During the energy transition, the market for petrochemical energy is in the Asia-Pacific, alongside the source of investment. In the past decade, the US and Europe's dependence on the Middle East has dropped significantly, while Asia-Pacific's dependence is rising, and this trend will continue in the next decade. China has announced an emission peak in 2030, and India may achieve emission peak in 2040, which shows that Asia's demand for petrochemical energy will increase for at least a decade. In 2020, the Asian market accounted for 77 percent of Saudi Arabia's crude oil exports, of which China alone was 26 percent, and all countries in Europe and the Americas accounted for 19 percent. Regarding natural gas, Qatar is the world's largest exporter of LNG, with 70 percent going to Asia. According to estimates by the International Energy Agency, liquid oil demand in Europe will fall from 13 million barrels per day in 2018 to 5 million barrels per day in 2040, and in Asia-Pacific from 34 million barrels per day in 2018 to 25 million barrels per day in 2040.² When the European and American markets are shrinking and the Middle Eastern oil-producing countries are racing to increase production capacity, Asia has become their only option. On March 29, 2021, the Abu Dhabi National Oil Company of the UAE launched the Murban crude oil futures market. Almost all Murban crude oil is exported to Asia; 30 percent to Japan, while China, South Korea, Thailand, and India each account for 15 percent. In 2020, Singapore's Pavilion Energy signed a deal with Qatar Petroleum to get supplies up to 1.8 million tons of LNG per year to Singapore from 2023. These moves show that Gulf oil and gas countries are stepping up their competition for the Asian market.

¹ "Middle East/North Africa (MENA)," accessed October 18, 2021, <https://ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa>.

² "Oil Demand by Region and Scenario, 2018-2040," accessed October 18, 2021, <https://www.iea.org/data-and-statistics/charts/oil-demand-by-region-and-scenario-2018-2040>.

As US and European investments have left the Middle East, Chinese investment has increased, which is a relief to the capital-strapped Middle East. Middle Eastern countries need investment to expand oil and gas production capacity, and greater investment is required to develop new energy. It is estimated that in the future, the global energy investment demand will double every year, reaching US\$4–5 trillion.¹ European and American companies have withdrawn their capital because they are not optimistic about the prospects of the oil and gas market. Since 2018, American and European multinational oil companies such as ExxonMobil, Chevron, BP, Shell, Total, and Eni have sold assets of US\$28.1 billion and planned to dispose of US\$30 billion assets. The sale of assets is as high as US\$140 billion. Upstream oil and gas investment in 2021 is US\$315 billion, a 30 percent decrease from the previous year and 60 percent below the 2014 peak. According to the 2050 carbon neutrality plan of the European Commission, the European Investment Bank will no longer invest in the petrochemical energy industry from 2021. Under financial pressure, Gulf countries, which have never been short of money, began to sell assets and borrow. Abu Dhabi National Oil Company sold natural gas pipelines for US\$20.7 billion in 2020. In April 2021, Saudi Aramco announced that a US consortium would pay US\$12.4 billion to buy its oil pipeline. Concurrently, Middle Eastern countries turned their attention to Asian countries such as China. Chinese investment in the Middle East has increased rapidly over the past decade when global outward foreign direct investment (FDI) has weakened and FDI inflows into the Middle East have also declined. In 2016, China became the largest foreign investor in the Middle East. In 2010, China accounted for 2.4 percent of the stock of FDI in the Middle East, which rose to 5 percent in 2019. In 2010, China accounted for 3.3 percent of the flow of FDI in the Middle East, and it rose to 10.1 percent in 2019.²

Concerning new energy, China has the world's largest production capacity and is an ideal partner for Middle Eastern countries. Regarding clean energy,

¹ "The First Big Energy Shock of the Green Era," accessed October 18, 2021, <https://www.economist.com/leaders/2021/10/16/the-first-big-energy-shock-of-the-green-era>.

² "China Global Investment Tracker," accessed October 18, 2021, <https://www.aei.org/china-global-investment-tracker/>.

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China is a global leader in the production and use of solar and wind energy. Since 2009, China has invested US\$900 billion in renewable energy, twice the amount of the US. China produces more than 70 percent of the world's solar modules and 50 percent of its wind turbine manufacturing capacity. It is the world's largest electric vehicle manufacturer, accounting for nearly half of the world's total, and controls 77 percent of global lithium battery production capacity. For nuclear power, the US used to be a technological leader, but it has not developed new projects since 2007. Russia, China, and France are particularly active in the international market. Middle Eastern countries have launched ambitious new energy targets. Egypt will reach 42 percent of renewable energy by 2030, Saudi Arabia will reach 50 percent by 2030, and the UAE will reach 44 percent by 2050. To achieve these ambitious goals requires huge new energy capacity and investment, and China has obvious advantages.

The US came to the Middle East for oil. When Saudi Arabia sought financial aid from the US in 1942, US President Franklin Roosevelt refused due to distance, and then when the US in a wartime state desperately needed overseas oil, the Middle East was the only option. On February 18, 1943, President Roosevelt authorized the Lend-Lease to Saudi Arabia.¹ It is a long-term alliance between the two nations. Now, the US is also alienated from the Middle East because of oil. As the US becomes energy independent and oil becomes less important, the US withdrawal from the Middle East is a long-term trend.

In the process of energy transition, new and old energy coexist for a long time. In the old energy pattern, energy security was the country's primary consideration and the West and the Middle East were interdependent. During the energy transition, the importance of carbon emissions will increase, and the West and Middle East may become antagonistic. By contrast, China shares many common interests with the Middle East in both the old and new energy order. Regarding old energy, China is the largest consumer, and as the oil market becomes a buyer's market, China's political influence will expand, and the energy security issues that have plagued the country for a long time can be alleviated. Regarding new energy, China and the Middle East are developing

¹ Herbert Feis, *Seen from E. A.: Three International Episodes*, Knopf, 1947, 102.

countries in terms of carbon emissions. Against this background, the oil-producing countries in the Middle East have recently shown unprecedented enthusiasm in improving relations with China, and are open to the fields of petro renminbi, upstream oil and gas assets, and long-term bulk oil supply contracts. News reports like “Saudi Arabia turns toward China” are surfacing in the media.¹ Abdulkhaleq Abdulla, an Emirati professor of politics, said that the trust of the Gulf countries in the US has been lost, China’s influence is growing, and the US’ influence is weakening. This is not only reflected in the economic field, but in all aspects of politics, military, and strategy.²

Conclusion

The global energy transition is a long-term, slow, and potentially iterative process with a clear starting and ending point, as is oil power. The transfer of oil power began a long time ago, but people’s understanding is still stuck in the 1973 Arab oil embargo. Daniel Yergin asserted as early as 1991 that the value of oil as a strategic asset is overvalued and that the world’s position on oil will be challenged in the future.³ Thirty years later, that “future” has arrived. In the 1960s, during the development of oil nationalization, oil power was transferred from Western oil companies to the governments of oil-producing countries. Now, oil power is shifting from producers to consumers. The oil sanctions after 1973 were all sanctions imposed by consuming countries on producing countries, and there have never been any sanctions imposed by vice versa. Particularly since 2017, the US has imposed oil sanctions on Iran, Venezuela, and Russia, and the three countries’ oil production accounts for 1/6 of the world’s production. The sanctions imposed on the US by Arab oil-producing

¹ Karen Elliot House, “Saudi Arabia Turns towards China,” accessed November 18, 2021, https://www.wsj.com/articles/saudi-arabia-china-crown-prince-mohammed-bin-salman-energy-prices-climate-xi-biden-iran-11636493333?mod=hp_opin_pos_4#cxrecs_s.

² Andrew England and Simeon Kerr, “More of China, Less of America: How the Superpower Fight Is Squeezing the Gulf,” accessed October 18, 2021, <https://www.ft.com/content/4f82b560-4744-4c53-bf4b-7a37d3afeb13>.

³ Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, Simon & Schuster, 1991, 777.

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countries in 1973, it was a significant change. In the past, energy security refers to the reliability of consuming countries' access to oil; in the future, energy security may refer to the reliability of oil-producing countries' access to markets. Therefore, the position and function of the Middle East in global politics will inevitably change since WWII.

The traditional Rentier State theory believes that citizens of Arab oil-producing countries enjoy better welfare because of the petrodollars, so the political demands are low, and the country is politically stable. If there is no oil, the country will be more turbulent. The Resource Curse theory believes that the reason for the Middle East's low labor productivity, backward political system, and frequent turbulence is from citizens lacking the pressure and motivation to create wealth and instead compete for wealth. If there is no oil, the country would normalize.¹ In the future, as petrodollars decline, the Middle East will become a natural testing ground for the various theories. Traditionally, the Rentier States in the Middle East has two characteristics: one is high welfare, and the other is benevolent and authoritarian. Relatively fair distribution of wealth is the government's primary task, and economic development is always a subordinate. In the process of energy transition, the new model has two characteristics: low and medium welfare, and authoritarian government. For more than 40 years, the Rentier State theory holds that the legitimacy of oil-producing countries in the Middle East is based on the welfare of the whole people, and the government does not dare to tax citizens. Across 1986–2004, none of the six Gulf countries cut energy subsidies or increased taxes. Now, at least nine Middle Eastern countries have cut energy subsidies, and Saudi Arabia, the UAE, Bahrain, and Oman have all imposed a value-added tax of 5 percent–15 percent. Reform requires centralization, and centralization requires repression. Society will tolerate and acquiesce to repression as long as the reforms yield widespread economic dividends. This is the first stage of reform. The reform has not yet yielded widespread economic dividends but requires all people to bear the cost of reducing welfare. To minimize the power of the counter-reform, the crackdown was mainly aimed at the elites, such as members

¹ Gwenn Okruhlik, "Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States," *Comparative Politics*, No. 3, 1999, 295–315.

of the royal family, big businessmen, opinion leaders, and influential religious figures, with most ordinary people unaffected. On the contrary, the government provides cash subsidies to the poor. Saudi Arabia has set up the Citizen Account Program, which provides half of the country's population with a monthly subsidy of US\$80–250 in cash per person. It has been the middle class and elites who bear the cost of reform. For political and economic relations, reforms must achieve general economic dividends before the scope of repression is expanded. This is a race against time. Failing to do so, the rich Gulf countries would be like Arab non-oil-producing countries, namely high-intensity authoritarian politics and low levels of social welfare. No matter how the energy transition goes, it means that the welfare society that has existed widely in the Arab world for the past 50 years will conclude. This is not an easy mission. Historically, there have been few successful cases in the transformation of resource-based countries.

The global energy transition on the Middle East has had a positive impact with most countries being moderate and pragmatic in foreign affairs. They have explored the path of economic transformation according to their own conditions. The current oil price is still around US\$80 per barrel, and the Arab oil-producing countries still have the financial resources to maintain a welfare society and invest in new industries. This is a prerequisite for an optimistic situation. In the future, if the oil era ends before the economic transformation is completed, the prospects for Arab oil producers are worrying. From an oil and economic perspective, time is imperative. Some researchers believe that even under ideal conditions, Arab countries cannot get rid of the land rent economy in 2030, and even 2050 is unimaginable.¹

¹ "The Politics of Rentier States in the Gulf," POMEPS Studies, Project on Middle East Political Science, January 2019, 29-33.