21 June 2021

The Implications of Low Oil Prices and Economic Diversification in the Middle-East

Author: LTC Meteb Almarri, QAT Air Force, CSAG/CCJ5

Key Points

- Oil prices decreased in 2020 due to COVID-19 and its ramifications for most Middle East economies.
- The region experienced diversification in economic activities in the last year, attributed to the need for other sources of national revenue.
- It is uncertain whether low oil prices and Middle East economic diversification will help or harm USCENTCOM's strategic and functional priorities.
- The consequences of low oil prices and the need to diversify the economy may create advantages for China and Russia in the Middle East and Levant.
- Saudi Arabia and UAE have extended considerable loans to their neighbors. What initially appears to be an appreciable gesture of mutual assistance could ultimately significantly modify these nations' political relationships.

Introduction

The Middle East is a global producer and exporter of oil. The region enjoys high returns from oil sales to many countries around the world. The Middle East has relied heavily on oil revenue in the past to sustain its economies. In fact, many regional countries maintain economic stability through oil production and export. Great Power Competitors have established themselves in the region, intending to acquire a sustainable oil supply. Countries like the US, Russia, and China battle for dominance in the region due to good economic opportunities. Oil has made the region a strategic area for several countries, especially China, which needs a large oil supply to run its industries. China's activities in the Middle East increased in 2020 as it sought to create lasting relationships with many governments in the region as a strategic economic investment. However, the region limited oil exports in 2020 due to increased demand for other products such as medication.

The region's declining oil prices are a blow to its economic sustainability; hence, regional countries need to invest in more diverse economic activities and industries. These investments are intended to decrease overreliance on oil revenue. The region also benefits from economic investment from strong global economies like the US, Russia, and China. These countries' interests in the Middle East have enabled the region to diversify its financial activities to accommodate fluctuations in oil prices.

Background Information

Oil prices declined in 2020 due to the COVID-19 pandemic. The price fluctuations last year affected countries globally due to decreased economic activity. Many countries experienced significant economic downturns due to the pandemic, including the collapse of many industries. The Middle East was no exception. The pandemic-caused decline in oil prices created significant challenges to countries in the region. Several countries in the region used oil revenue to provide relief for their citizens.[1] Despite this good intention, the declining prices reduced the means to deliver such a plan.

GCC countries (KSA, UAE, QAT, KUW, BAH, OMAN) KINGDOM OF SAUDI ARABIA (KSA)

The low price of oil has affected KSA economically. In response, the government announced a raft of measures, including support packages targeting the private sector, totaling to about $61 B. The packages include exemptions and the postponement of some government dues ($18.6 B), a $13.3 B package to support the banking and Small and Medium Enterprises (SME) sectors, a $13.3 B allocation to ensure that government dues to the private sector are paid promptly, and a wage subsidy of 60% of Saudi employees' salaries in the private sector. The Central Bank of Saudi Arabia has further announced a $13.3 B injection into the banking sector to enhance banking liquidity and enable banks to continue providing credit facilities for the private sector.[2]

Further, KSA tripled the VAT from 5% to 15% since July 2020 and removed living allowances for public employees. This is projected to negatively affect the kingdom's GDP. The same GDP reduction was observed after the first introduction of VAT in 2018.[3]

Although KSA has struggled during this low oil price period, it has a certain economic advantage over other Gulf Cooperation Council (GCC) countries due to diversification of its revenue sources. The advantage particularly comes from large investments made in overseas countries. These investments represent 70% of more than $400 B controlled by Public Investment Funds (PIF). The income from these investments is available to KSA during this downturn. In May 2020, the PIF purchased minority stakes in major US companies, including Boeing, Facebook, Disney, Citigroup, and Bank of America. It has also disclosed a $830 M stake in oil company BP.[4] All these investments were made while the stock markets were at nearly the lowest level in a decade, so KSA will likely see a significant profit.

[1] Bassam Fattouh, "Economic Diversification in Arab Oil-Exporting Countries in the Context of Peak Oil and the Energy Transition," Springer. https://link.springer.com/chapter/10.1007/978-981-15-5728-6_5 (accessed Feb 9, 2021).

[2] KPMG, "Kingdom of Saudi Arabia," Jul 22, 2020, https://home.kpmg/xx/en/home/insights/2020/04/saudi-arabia-government-andinstitution-measures-in-response-to-covid.html (accessed Jan 26, 2021).

[3] KPMG, "Saudi Arabia: VAT rate to increase to 15% (COVID-19)," May 11, 2020, https://home.kpmg/us/en/home/insights/2020/05/tnfsaudi-arabia-vat-rate-to-increase-to-15-percent-covid-19.html (accessed Jan 27, 2021).

[4] Deena Kamel, "Saudi Arabia's Public Investment Fund invests billions of dollars in Boeing, Disney and Facebook shares," The National, May 16, 2020, https://www.thenational.ae/business/saudi-arabia-s-public-investment-fund-invests-billions-of-dollars-in-boeing-disneyand-facebook-shares-1.1020204 (accessed Feb 9, 2021).

UNITED ARAB EMIRATES (UAE)

As a result of low oil prices, UAE cut its 2021 federal budget. The budget for 2021 was set at 58 B dirhams ($15.8 B), down from 2020's 61.35 B dirhams, which was the largest budget since the country's formation.[5] The International Monetary Fund (IMF) expects the UAE economy to shrink by 6.6% this year and swing back to a modest growth of 1.3% next year. The IMF estimated the UAE government deficit - including consolidated accounts of the federal government and the emirates of Abu Dhabi, Dubai, and Sharjah - at 9.9% of GDP last year, up from a 0.8% of GDP deficit 2019.[6]

However, this did not hinder the UAE from starting its Barakah nuclear energy plant, the first in the Arab world and a significant step toward the country's goal of emissions-free electricity. With the announcement, the UAE becomes the newest member of an exclusive club of 31 countries operating nuclear power facilities. It's also the first new country to launch a nuclear power plant in three decades. The Barakah plant's Unit 1 is the first of the UAE's planned four reactors, which, when complete, are expected to meet 25% of the country's electricity needs with zero carbon emissions.[7] In addition, the UAE successfully launched its Mars probe, named Hope, making history as the Arab world's first interplanetary mission. Launched from the Japanese space center, the Hope probe reached Mars' orbit in February 2021 and will spend one Mars year - equivalent to 687 days on Earth - studying and gathering data on the red planet's atmosphere.

QATAR

2020 oil prices hurt Qatar's economy. However, the country is forging ahead with expanding the world's largest liquefied natural gas (LNG) project, and eyeing investment opportunities overseas despite a slump in global energy demand. The North Field expansion project will increase Qatar's LNG production capacity from 77 M tons of LNG per annum to 110 M by 2025, which could increase to 126 M tones two years later. The move should help Qatar regain from Australia the title of the world's top LNG producer. Qatar Petroleum reached agreements on three blocks in the Campeche offshore basin in Mexico and struck a deal with Total, the French energy company, to acquire a 45% participating interest in two blocks offshore Ivory Coast. The North Field expansion project has attracted huge interest from the world's energy majors including Total, Royal Dutch Shell, ExxonMobil, ConocoPhillips, and others that see it as an opportunity to invest in a fuel expected to remain more resilient than oil because of its lower emissions. The global LNG market has overgrown in recent years, spurred by new projects in Australia and Russia and the emergence of the US as a significant exporter as the shale boom created ample supplies. However, it is also fiercely competitive, with many planned projects predicted to struggle to make it to completion without a quick recovery in global prices.[8]

Qatar Financial Centre is seeking to attract $25 B of foreign direct investment (FDI) inflows by 2022. It comes at a time after Saudi Arabia reinstated diplomatic ties with neighboring Qatar, ending more than three years of a blockade against the tiny, gas-rich nation. The financial center's ambitious FDI target — along with creating 10,000

---

[5] Reuters Staff, "UAE cuts spending in 2021 federal budget," Reuters, https://www.reuters.com/article/emirates-economy-budget-intidUSKBN27H19W (accessed Feb 16, 2021).

[6] Reuters Staff, "UPDATE 1-UAE cuts spending in 2021 federal budget," Reuters, https://www.reuters.com/article/emirates-economybudget/update-1-uae-cuts-spending-in-2021-federal-budget-idUKL1N2HN068 (accessed Feb 16, 2021).

[7] 2021, https://www.cnbc.com/2020/08/03/uae-becomes-first-arab-country-to-launch-local-nuclear-energy-program.html, (accessed Feb 16, 2021).

[8] A. England and D. Sheppard, "Qatar pushing ahead with LNG expansion despite demand slump," Australian Financial Review, https://www.afr.com/companies/energy/qatar-pushing-ahead-with-lng-expansion-despite-demand-slump-20200525-p54w93 (accessed Jun 9, 2021).

new jobs and more than 1,000 companies by 2022 — will boost the GCC detente. Qatar's Commercial Bank COMB is planning to raise at least $1 B through bond issues, as the bank looks to take advantage of favorable market conditions to boost its capital. The bank reported a 35.6% annual drop in net profit for 2020, but expects business conditions to improve amid the vaccines roll out and a rebound in energy prices.[9]

Turkey’s central bank tripled its currency swap agreement with Qatar, securing much-needed funding as the country of 82 M burns through its reserves and faces a widening fiscal deficit and long-term economic difficulty.

The move amended the original limit of $5 B on the two countries’ initial swap agreement in 2018, raising it to $15 B. “The core objectives of the agreement are to facilitate bilateral trade in respective local currencies and to support the financial stability of the two countries,” the bank said.[10] The swaps are performed in Turkish lira and Qatari riyal. A currency swap line is an agreement between two central banks to exchange currencies, improve liquidity conditions, and provide foreign currency funding to domestic banks during periods of market stress. Funding markets have deteriorated in Turkey, with the lira hitting its lowest point ever amid investor concerns over the country’s finances. The Turkish central bank has drawn down millions of dollars from its foreign currency reserves to buy the lira and prop it up against the dollar in recent months. The expanded swap line with Qatar — which in recent years has strengthened its political and economic relationship with Ankara — enables Turkey’s central bank to provide its domestic banks with the foreign liquidity they need without using its own foreign reserves.[11]

KUWAIT

Kuwait’s economy shrank due to the fall in oil prices around the world. However, Kuwait possesses natural resources that play a key role in driving its economy. Kuwait plans to develop the northern part of the country, known as the Northern Region Economic Project “Silk City,” to transform Kuwait into an international trade and financial hub by attracting foreign investments and boosting the tourism sector.[12]

Another strength of Kuwait is having a strong financial buffer. It has a General Reserve Fund (GRF) used to support state functions, and maintains its Kuwait Future Generations Fund (FGF). The Kuwait Investment Authority (KIA) manages both FGF and GRF. However, Kuwait’s treasury is shrinking fast due to falling oil prices and the government directs cash intended for the reserves to other projects allowing the reserves to deplete. A notable example is when lawmakers passed a law that halts the transfer of 10% annually – a substantial cut - of the Kuwait revenue to the FGF.[13]

[9] D. Barbuscia, “Qatar’s Commercial Bank plans to raise at least $1 bln via bond sales – CEO,” Sharenet, https://www.sharenet.co.za/views/views-article.php?views-article=570668 (accessed Jun 9, 2021).
[10] N. Turak, “Turkish central bank triples Qatar currency swap line to $15 billion as economy flounders,” CNBC, https://www.cnbc.com/2020/05/20/turkish-central-bank-triples-currency-swap-line-with-qatar.html (accessed Jun 9, 2021).
[11] Ibid.
[12] Hamad H. Albloshi. “Kuwait's New Leadership: Between Governance and Expectations,’’ Jan, 26, 2021, https://www.ispionline.it/en/pubblicazione/kuwaits-new-leadership-between-governance-and-expectations-28993 (accessed Jan 26, 2021).
[13] Reuters, “Kuwait liquidity crunch unlikely until third quarter, says BofA,” https://www.reuters.com/world/middle-east/kuwait-liquidity-crunch-unlikely-until-third-quarter-says-bofa-2021-03-21/ (accessed Jun 9, 2021).

BAHRAIN

The effects of oil prices on the economy of Bahrain are noticeable. For instance, Bahrain's fiscal deficit is estimated to have more than doubled to $4.4 B last year, compared with a budgeted $2.1 B. Bahrain's total outstanding debt was $39.8 B as of the end of 2020, soaring to 118% of GDP. Bahrain sold $2 B in bonds to the public with very high return rates at the beginning of this year to cover its fiscal deficit.[14] Bahrain is not well rated by three major credit bureaus because of its precarious public finances and strained reserves.[15]

In 2018, GCC countries provided Bahrain a $10 B aid package with no interest due over five years. Bahrain has so far received more than $6 B out of that zero-interest package and expects a further $1.85 B this year. Due to the ongoing situation, Bahrain is unlikely to be able to make future payments in a timely manner. Moreover, the COVID-19 pandemic and low oil prices have affected KSA and other GCC economies. Therefore, further GCC financial support to Bahrain's government is unlikely.[16]

It will be difficult to restore the economy of such a small country, which is still too dependent on oil and gas revenues. Insufficient diversification and likely weakening support from neighboring countries will burden Bahrain for longer than its leaders anticipate.

OMAN

Oman's credit rating limits its ability to borrow more money to counter the adverse effects of low oil prices. The country is currently facing a profound fiscal and economic crisis, which necessitates financial help from the neighboring UAE and Saudi Arabia, contributing about three-quarters of the GCC's GDP.[17]

Earlier last year, Oman's new leader, Sultan Haitham bin Tariq al-Said, announced that the country would maintain a foreign policy that enhances neutrality in the region amid regional conflicts. In this case, Oman continues to use former Sultan Qaboos' foreign policy to mediate regional conflict resolutions without directly involving the military. As a result, the balanced foreign policy, skillful mediation, and conflict resolution make Oman a unique country among other Arab countries. However, it is speculated that Sultan Haitham's inexperience in leading the country, and the country's weak financial position, may make it hard for the country to support the UAE and Saudi Arabian foreign policy initiatives. Oman is currently facing a profound fiscal and economic crisis, which necessitates financial help from the neighboring UAE and Saudi Arabia, who contribute about three-quarters of the GCC's GDP. For instance, in August last year, a report emerged that Oman secured a $2 B bridge loan coordinated by Bank Muscat and First Abu Dhabi Bank.[18] This indicates a renewed interrelation and interdependence between Abu Dhabi and Muscat, a trend that may adversely affect Oman's role as a regional

[14] Yousef Saba, "Bahrain gets $2 billion in bond sale after deficit spike," Reuters, Jan 20, 2021, https://www.reuters.com/article/usbahrain-bonds-idUSKBN29P125 (accessed Jan 26, 2021).
[15] Archana Narayanan and Farah Elbahrawy, "Bahrain Plans to Sell Dollar Bonds to Plug Budget Deficit," Bloomberg, Jan 19, 2021, https://www.bloomberg.com/news/articles/2021-01-19/bahrain-plans-to-sell-dollar-bonds-to-plug-budget-deficit (accessed Jan 26, 2021).
[16] Yousef Saba, "Bahrain gets $2 billion in bond sale after deficit spike,"
[17] Bayly Winder, "Oman's Regional Role in a Time of Challenge and Change," Middle East Institute, Aug 26, 2020, https://www.mei.edu/publications/omans-regional-role-time-challenge-and-change (accessed Jan 19, 2021).
[18] Yousef Saba, "Oman Secures $2 Billion Bridge Loan: Sources," Reuters, last modified Aug 12, 2020, https://www.reuters.com/article/usoman-loans/oman-secures-2-billion-bridge-loan-sources-idUSKCN2581M2 (accessed Jan 19, 2021).
[19] New Urban Communities Authorities, "العاصمة الإدارة الجد دة" [The new administrative capital], http://www.newcities.gov.eg/know_cities/NewCapital/default.aspx (accessed Jan 25, 2021).

mediator. Despite improving Oman's economy, this large-scale assistance from the neighboring countries will deteriorate Omani foreign policy's neutrality and independence.

EGYPT

As an oil producing country, Egypt's economy was affected by the global decline in oil prices. To diversify and grow its economy, Egypt implemented several projects as part of its Vision 2030. The most aggressive of those is construction of the new administrative capital, which is a large-scale project built east of Cairo to provide a thriving economic environment and smart infrastructure that forms the nucleus of living standards and sustainable development.[19] However, Egypt's vision of economic development is not only about economic growth, but more toward social justice and protection of the most disadvantaged citizens. Therefore, Egypt made large investments toward education, health, new housing projects for the most disadvantaged, and rehousing for those living in temporary settlements.[19]

Also, Egypt's tax system reform and spending policy changes to increase public revenue and reduce foreign debt were highly impactful. Furthermore, large new foreign investments, especially in the Suez Canal, have helped the economy to increase foreign currency reserves and decrease inflation. Tourism is yet another sector that is strongly recovering. Many international air carriers are resuming flights to destinations in Egypt, and this is expected to substantially contribute to greater economic recovery.

LEBANON

Lebanon, as an oil importing country, also experienced the economic distress of dipping oil prices since it largely depends on Gulf region workers' funds transfers. Notably, the country was already in an economic turmoil before the COVID-19 pandemic and the situation is dire because its banking system is on the verge of collapse. Further, the lower oil price effects on Gulf countries, where a fifth of Lebanon's GDP is contributed by people working in these countries, made Lebanon's situation even worse. Statistics from 2015 show that more than 400,000 Lebanese emigrants contributed 43-60% of overall remittances to Lebanon. Therefore, as these workers face scarcities of work, they will be unable to send money to their home country, thus exacerbating an already dwindling Lebanese financial sector. Further, as economic crises continue in the Gulf region, some Gulf countries may revert to nationalizing their labor forces. The resulting quotas for local citizens in the private sector will take away positions currently held by Lebanese expatriates. [20]

Now more than ever, Lebanon receives inadequate international support from both the West and Gulf countries. For example, export-driven growth will be less feasible in the coming few years because of the mounting protectionism across the globe. This will likely cause a distressing economic impact both directly and indirectly, because of Lebanon's very delicate economic nature.[22]

---

[19] Altayar, "Egypt celebrates its economic achievements despite the pandemic." Nov 4, 2020, https://atalayar.com/en/content/egyptcelebrates-its-economic-achievements-despite-pandemic (accessed Jun 9, 2021).

[20] B. Momani, "The Impact of Low Oil Prices and COVID-19 on Arab Economies," Arabcenterdc.org, 2020, http://arabcenterdc.org/policy_analyses/the-impact-of-low-oil-prices-and-covid-19-on-arab-economies/ (accessed Jun 16, 2021). [22] J. Abi-Rached and I. DIwan, "The Socioeconomic Impact of COVID-19 on Lebanon: A Crisis Within Crises: EuroMeSCo – EuroMediterranean Research, Dialogue, Advocacy," Euromesco.net, 2020, https://www.euromesco.net/publication/the-socioeconomicimpact-of-covid-19-on-lebanon-a-crisis-within-crises/ (accessed Jun 15, 2021).

JORDAN

The government of Jordan took measures to remedy the failing economy. For example, it secured a $1.3 B loan from the International Monetary Fund in March 2020 to will help guide economic reform. The Ease of Doing Business report highlighted Jordan's efforts and success in improving credit availability.

Since Jordan and Syria are neighbors, effort to rebuild Syria can have long term advantages to Jordan as it would serve as the international logistical hub. Similar opportunities exist with Iraq. Therefore, restoring those relations should be a high priority as well. As a possible means of alleviating concerns about Jordan's use of budget support, Saudi or Emirati contributions could be included in the US or internationally monitored investment program.[21] This approach would transfer the burden from individual partner nations to an international collective for support.

SYRIA

Syria's gas and oil sectors are key contributors to government revenues. The nation's budget breakdown for 2020 shows that revenues from oil were below $37 M the previous year.[22] However, its oil reserves when compared with other Middle East countries are small. The oil reserves of Syria were approximated to be 2.5 B barrels in 2018, compared with Iran's 155 B, Iraq's 147 B, and Saudi Arabia's 297 B barrels. However, Syria's oil production has dwindled since the conflict started in 2011. For instance, the country produced an estimated 406, 000 barrels per day in 2008, dropping to 353,000 barrels per day in 2011, and plunging to 24,000 barrels per day in 2018, a total decrease of more than 90%. Given these statistics and with the decline of oil prices around the world, Syria is likely to face long-term economic distress.

IRAQ

Iraq relies on oil exports to fund 95% of state revenues. In 2020, Iraq borrowed approximately $55.6 B from the World Bank, as well as from regional banks, for the purpose of securing employee salaries. The delay in salaries has caused a severe recession in the Iraqi markets, exacerbated by several factors including: the collapse of oil revenues, the oil price war between Russia and Saudi Arabia, the recent lockdown measures to deal with the COVID-19 pandemic, and the government's failure to prepare for the predictable financial crisis. As the Carnegie Endowment for International Peace recently reported that the government did not even reduce the inflation of public sector employees. The Carnegie institute reported, the financial crisis had short-term and long-term repercussions. In the short term, Baghdad is finding it difficult to pay the public sector's employees, requiring the assumption of the long-term burden of debt to cover state salaries. With the decline in oil revenues, the state's monthly income now covers only 55% of government expenditures. In the longer term, Iraq is facing a total financial collapse, likely within this year.[23]

---

[21] Ben Fishman, "Jordan Must Be Included in Future Israeli-Arab Normalization Deals," The Washington Institute, Jan 14, 2021, https://www.washingtoninstitute.org/policy-analysis/jordan-must-be-included-future-israeli-arab-normalization-deals (accessed Jan 27, 2021).

[22] W. Christou, "Fuel shortage chills northeast Syria as oil production lags," Al-Monitor: The Pulse of the Middle East, 2021, https://www.al-monitor.com/originals/2021/03/syria-administration-fuel-gas-bread-people.html (accessed Jun 17, 2021).

[23] Shafaq News, "Carnegie Endowment for international Peace expects a financial collapse In Iraq in 2021," Nov 11, 2020, https://shafaq.com/en/Economy/Carnegie-Endowment-for-International-Peace-expects-a-financial-collapse-in-Iraq-in-2021, (accessed Feb 2, 2021).

Iraq's financial outlook is poor. The situation may lead to a repeat of the employees' salaries' delay unless a miracle saves a country burdened with debt and crises. The parliament has indeed agreed to continue borrowing to pay employees' salaries. Further, parliament does not support the government's White Paper reform plan. Dr. Nasir Al-Kinani, an expert and economic consultant, in an exclusive statement to Shafaq News agency said, "Iraq has a deficit of $55.6 B, in addition to the previous debt of $200 B. It is a major problem, for it may take many years for Iraq to pay off."[24] He also said that the issue of distributing employees' salaries had created setbacks throughout the market, and he criticized the idea of unpaid salaries due to a rivalry between government and parliament.

However, the situation is not lost for Khadimi and his government. For instance, after the Khadimi-Trump meeting, agreements were signed with various American companies worth more than $8 B. These deals could reach the US strategic goal and reduce Iraqi dependence on Iranian energy. Another brilliant move of Khadimi was his participation in the Iraq, Jordan, and Egypt summit. By partnering with both Egypt and Jordan, Khadimi can tie Iraq to a far greater market and ensure that trade can strengthen the middle-class. Also, Khadimi's meeting with the Saudi foreign ministry opened new opportunities for Iraq to build upon Iraqi-Saudi Coordination Council's committees and principles that seek to improve bilateral relations on areas including energy, security, and finance. According to the Wall Street Journal, there is also a deal supported by the US that would accelerate work to connect Iraq's electricity grid to those of Saudi Arabia and Kuwait, as well as develop their energy cooperation, particularly in the gas sector. Connecting Iraq to the Gulf grids would help pull Baghdad out of multiple problems the country faces on the power supply front. With US support, Iraq can also further develop trade, technology, and energy cooperation with the UAE, which over the past few years has strategically invested in Iraq. The latest project amounts to over $3 B to develop the gas sector in the autonomous Kurdistan Region of Iraq.

IRAN

The IMF stated Iran's GDP contracted by 5%. However, the overall shrinkage is moderate compared to other countries in the region because Iran had a shorter initial period of COVID-19 restrictions, and its economy was already operating below capacity due to US sanctions. Despite the fact that Iran has a relatively diversified economy, US sanctions, COVID-19 consequences, and the collapsed oil market created the combined shock resulting in Iran's third consecutive year of economic recession. Despite the expansion of US sanctions to other key industries, non-oil GDP grew in agriculture and manufacturing sectors. The US has given the coercive tools of sanctions and isolation more than a fair chance for over 40 years affecting Iran's economy and people, but without significant impact on Iran's polices. Those with lower incomes suffered most of the high inflation and deep currency depreciation. Though the regime had to sell many assets on the Iranian stock market to make good for revenue declination, Khamenei's wealth was not touched. At the end of March 2020, President Rouhani announced Iran would spend over 10% of GDP in COVID-19 relief and recovery measures. Iran also received a $50 M loan from the World Bank in July, which was used for financing imports of medicine and medical equipment through the WHO. In response to a new surge in cases, the government unveiled another round of relief measures for households in November, totaling 1% of GDP.

Iran's near-term economic future remains highly uncertain, especially given the COVID-19 effects and possible continuation of US sanctions. If COVID-19 developments force the government to implement new lockdown measures, or if a vaccine is not distributed soon, the economy will be affected significantly. The US maximum

[24] Shafaq news, "Iraq drifts into total chaos," Nov 15, 2020, https://shafaq.com/en/Report/Iraq-drifts-deep-into-total-chaos, (accessed Feb 3, 2021).

pressure policy has significantly depleted Iran's financial reserves, but may also create a humanitarian crisis in the long term. The volatile Iranian currency could plunge further, thereby impoverishing ordinary citizens. Iran could recover quickly once sanctions are released and oil demand from China and other countries can be met. China's investment in Iran is high based on their 25-year deal. Therefore, China will likely pressure the Biden Administration to lift the sanctions. Further economic loss for Iran combined with pressure from the region on the security domain is driving Iran to isolation. This does not help China's long-term development of the Belt and Road Initiative. The dire economic situation has caused Iran to move closer to Russia and China, a move that is detrimental to the Western vision of the Middle East.

ISRAEL

Currently, Israel is not among the oil producing countries. Nevertheless, Israel's economy impacts the region because Israel has a knowledge-based economy, and a well-developed high-technology sector.[25] Though young and surrounded by security threats, Israel's pioneer state of mind enabled it to establish a highly motivated and educated populace largely responsible for triggering the high-tech boom and related economic development.[26] These developments created a market in Israel that is able to compete with Silicon Valley-based industries in which many investors see an opportunity to profit. Moreover, discoveries of natural gas reserves off its coast, together with Egypt and Cyprus, not only minimize its reliance on energy imports, but may also act as an incentive for multilateral cooperation. Such cooperation may provide Israel a stronger strategic position compared to Lebanon, Jordan, and Turkey, and create the resources necessary for costly defense purposes.[27]

Analysis

Due to an oil price war the situation in 2020 sank prices. Oil prices continued to decline due to industry shutdown across the globe, which relies on Middle East oil supply. Shutdown economies and borders led to increased threats to the economic stability of the Middle East region. Russia is a significant player in the Middle East region. Its increased presence and activities in the area provides a motive to control political and economic direction. The oil price wars fueled by Russia's influence particularly impacted Lebanon's economy in 2020 which experienced a continued downturn. Diversification attempts in the Middle East through investments in infrastructure, technology, and financial sectors all still rely on oil revenues; hence, declining prices influenced the entire economic development effort.

The decline in oil prices hit the UAE the hardest. The country relies heavily on oil production and exports. However, during the pandemic, the country's output reduced. Its second source of revenue, tourism, was also impacted by global borders' closure. The country is still experiencing the aftermath of the pandemic in 2021 as governments continue to impose travel measures. The UAE is estimated to record a 3.5% decrease in its GDP.[28] Saudi Arabia is

---

[25] Amy Chua (2003), World on Fire, (Doubleday, 2003), 219–220.

[26] Rabbi Steven Carr Reuben, Ph.D., "Imagine a World Without Israel," HuffPost, Aug 26, 2014, https://www.huffpost.com/entry/imaginea-world-without-i_1_b_5706935 (accessed Jan 27, 2021).

[27] Daniel Markind, "Will Natural Gas Isolate Turkey And Integrate Israel In The Eastern Mediterranean?" Forbes, Oct 22, 2020, https://www.forbes.com/sites/danielmarkind/2020/10/22/will-natural-gas-isolate-turkey-and-integrate-israel-in-the-easternmediterranean/?sh=59ea37c37209 (accessed Jan 27, 2021).

[28] Monitor Deloitte, "Impact of the oil industry crisis on the GCC and potential responses," https://www2.deloitte.com/content/dam/Deloitte/xe/Documents/energy-resources/me_eri-impact%20of%20oil%20on%20GCC.pdf (accessed Feb 9, 2021).

likely to withstand low oil prices since it was the least hit by the region's economic downturn. Although the country is experiencing a decline in its financial performance, its GDP is estimated to decrease by 2.3%, which is the lowest decrease in the region. Other countries in the area which rely on oil remittances, such as Lebanon and Jordan, have suffered a significant decline in their GDP despite aid and partnerships with China.

As of June, 2021, oil prices (per barrel) stand at approximately: $70 in Qatar, $71 in Saudi Arabia, $68 in Iraq, $71 in Kuwait, and $71 in the United Arab Emirates. Global oil importers suffered due to inaccessibility of supply as tankers were stuck in transit. Countries which reopened their economies at the end of 2020 subsequently resumed shutdown measures due to increased COVID-19 infections.[29] The lockdowns and reduced economic activities continue to affect oil prices globally, negatively affecting the overall Middle East economy. Countries are no longer prioritizing oil supply due to constrained health sectors, which increased the need for medication. The oil prices will go up in the second and third quarters of 2021 as economies reopen. Following the approval of COVID-19 vaccines, countries are reopening their economies and encouraging investment in industries for economic recovery. These projections in economic recovery will increase oil prices towards mid-2021.

Diversification

The reliance on oil revenues and oil remittances by countries in the Middle East has posed a significant danger to their economies during the COVID-19 pandemic. Oil-producing nations such as Saudi Arabia and the UAE experienced low production and low global demand.[30] Countries that rely on oil remittances, such as Egypt, Pakistan, Jordan, and Lebanon, experienced economic pressures due to reduced oil prices. There is a need for diversification in the Middle East's economic activities to reduce the risk of financial failure. The countries which rely on oil exportation as the only significant source of national revenue suffered harm as industries began to shut down in mid to late 2020 due to the effects of the COVID-19 pandemic. It was apparent that oil exports were not sufficient to maintain national economies. Due to fluctuations in oil prices and resulting economic insecurity, countries in the Middle East invested in other economic ventures such as infrastructure. Saudi Arabia has undertaken measures to avoid overreliance on oil production to meet its financial demands. The country's vision for 2030 creates further employment opportunities for its citizens. The Saudi government invests in businesses in the country to encourage SMEs that support the national economy.

Some Middle East countries are investing in local industries such as technology, green energy, and the financial sector. For example, Iran collaborated with China to provide infrastructure development, helping develop local businesses and relationships with neighboring countries.[31] China's Belt and Road Initiative with Iran was a strategic motive for its involvement in the Middle East. China provides infrastructure and technology investments in the Middle East, which helped oil-reliant countries diversify their economies. Trade agreements in the region among oil-producing countries rationed oil supplies to preserve resources. The move resulted in low production in 2020 aside from the pandemic. This strategy will enable governments to invest current oil revenues in other sectors.

---

[29] Bassam Fattouh, "Economic Diversification in Arab Oil-Exporting Countries in the Context of Peak Oil and the Energy Transition," Springer. https://link.springer.com/chapter/10.1007/978-981-15-5728-6_5 (accessed Feb 9, 2021).

[30] Bassam Fattouh, "Economic Diversification in Arab Oil-Exporting Countries in the Context of Peak Oil and the Energy Transition," Springer, https://link.springer.com/chapter/10.1007/978-981-15-5728-6_5 (accessed Feb 9, 2021).

[31] Jon Alterman, "China's Soft Power in the Middle East," CSIS, https://csis-website-prod.s3.amazonaws.com/s3fspublic/publication/090310_chinesesoftpower__chap5.pdf (accessed Feb 9, 2021).

Implications on CENTCOM's Strategic and Functional Priorities

Positive Trend

Iraq recently became aware of the need to diversify its economy and develop trade. By partnering with both Egypt and Jordan, Khadimi can tie Iraq to a far greater market and ensure that trade can build a middle-class strain option.[32] Meeting with Saudi foreign ministry opened new opportunities for Iraq to build upon the Iraqi-Saudi Coordination Council's committees and principles that seek to improve bilateral relations on areas including energy, security, and finance.[33] Another deal supported by the US accelerates work to connect Iraq's electricity grid to those of Saudi Arabia and Kuwait and, according to the Wall Street Journal, also develops their energy cooperation including in the gas sector.[34] Connecting Iraq to the Gulf grids would help pull Baghdad out of multiple problems the country faces on the power supply front. With US support, Iraq can also further develop trade, technology, and energy cooperation with the UAE, which over the past few years has invested in Iraq. The latest project amounts to over $3 B to develop the gas sector in the autonomous Kurdistan Region of Iraq. If these actions continue, it will positively affect CENTCOM's first and third strategic priorities, as well as the second functional priority.

Negative Trend

Undoubtedly, the recent and fourth strategic priority is likely to be negatively impacted. The economic consequences which have affected, and continue to affect, the oil producing and exporting countries in the Middle East likely favor China and Russia more than the US.

First, China, which signed the 25-year contract with Iran in September 2020, has a new source to import oil much cheaper than that of the Gulf countries. The diversification of the economy of the Gulf and Levant countries has long been identified as an imperative. The economic consequences linked to the current health crisis have only highlighted this paradigm shift for countries whose economy is based almost exclusively on exports of gas and petroleum products. This has created opportunities that China seizes with its ability to offer investments in the areas of infrastructure, technology and finance. Relying on private companies largely controlled by the State, China seems to have gained more market share than the other great power competitors in the Middle East the past year.

In addition, Russia also seems to have consolidated its preponderant influence in the Levant, in particular in Syria. The Syrian lira is indexed to the Lebanese lira. Although Lebanon is not an oil producing country, unlike Syria, the unprecedented economic crisis affecting Lebanon weakens the Syrian financial and economic sector. More than the implications of the low price of oil, the economic consequences of the civil war that began ten years ago have contributed to the growing influence of Russia at the military, political and economic levels.

The recent construction of a land military operational base near Palmyra and the control of oil fields in northeastern Syria seem to indicate that Moscow now wants to obtain the return on investment agreed in Syria.

---

[32] Middle east political and economic institute, "Iraq, Jordan and Egypt Strategic Partnership," https://mepei.com/iraq-jordan-and-egyptstrategic-partnership/ (accessed Jun 9, 2021).

[33] Saudi Press Agency, "HRH Crown Prince and Iraqi Prime Minister Hold Official Talks Session; Joint Statement Issued the official Saudi Press Agency," Spa.gov.sa, https://www.spa.gov.sa/viewstory.php?lang=en&newsid=2210083 (accessed Jun 9, 2021).

[34] B. Faucon and M. Gordon, "With U.S. Backing, Iraq Pushes for Energy Rapprochement with Saudis," WSJ, https://www.wsj.com/articles/with-u-s-backing-iraq-pushes-for-energy-rapprochement-with-saudis-11598190949 (accessed Jun 9, 2021).

Russian forces in March took control over the al-Thawra oil facility, located in southwest Raqqa governorate in northeastern Syria, after the Iran-aligned Liwa Fatemiyoun militia withdrew from the site. This followed Russian forces imposing their control of the Toueinane gas field in Raqqa's countryside.[35]

Implications with regard to changes in the roles of certain actors in the Middle East

Low oil prices for a relatively long period of time with the absence of a diversified economy (with the exception of tourism), have forced most Gulf and Levant countries to dip into their sovereign wealth funds to keep afloat companies, employees and civil servants.

Saudi Arabia and the UAE have extended considerable loans to their neighbors. What appears at first glance to be an appreciable gesture of mutual assistance could, however, be of a nature to significantly modify the roles of these borrowing countries at the diplomatic level. Some Middle East countries with high debt ratio, such as Bahrain, will be forced to hand over their oil management power to their creditors as a collateral for nonpayment as they will likely be unable to pay back their debt.

Conclusion

Oil production significantly determines the wealth of Middle Eastern oil-producing countries. Most countries rely on oil supply, as their primary source of national revenue, for economic sustainability. Even countries that do not produce oil are still dependent on oil remittances; hence, oil plays a crucial role in their economies' growth. A decline in oil prices is a significant setback for economic output in the region. Since the start of the COVID-19 pandemic, it has posed a significant challenge to global economies due to high infection rates among the working population, deaths, and business closures. Through mid-2020, there was a global shutdown on borders; hence, international trade relations suffered significantly from decreased oil prices. The continued economic impact has led to economic diversification investment in manufacturing, technology development, and an increase in the banking sector, with other countries in the Middle East investing heavily in the tourist sector.

Recommendations for the US/USCENTCOM

- The US should offer strategic economic support to oil producing countries in the Middle East with the aim of ensuring that its industries get sustainable oil supply. Among the various ways that this can be realized is through financial support to Middle East countries that have been adversely affected by the falling oil prices in the global market. Supporting these countries will strengthen US ties with these regional countries, giving it an upper hand over its competitors.
- The US should consider investing in projects aimed at supporting the economy of Middle East countries. The region offers great economic opportunities. An investment to gain economic dominance in the region will offer employment opportunities to the citizens of these countries. Economically empowered people have high purchasing power, whereby US products can have a sustainable market in the region.
- The US should support countries' economic recovery in the Middle East to boost the region's economic diversification capabilities to prevent global shutdowns due to failed oil production capabilities.

---

[35] Asharq Al-Awsat, "Russian Forces Takeover Two Oil, Gas Fields in Northeast Syria," https://english.aawsat.com/home/article/2859331/russian-forces-takeover-two-oil-gas-fields-northeast-syria (accessed Mar 15, 2021).