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China, Corona, Climate Change

Three Gamechangers
for the Arab Gulf States

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List of Acronyms

BRI	Belt and Road Initiative
DAC	Development Assistance Committee
FAO	Food and Agriculture Organization
FDI	foreign direct investment
GAVI	Global Alliance for Vaccines and Immunization
GCC	Gulf Cooperation Council
GW	gigawatt
ICZM	Integrated Coastal Zone Management
IEA	International Energy Agency
ODA	official development assistance
OECD	Organization for Economic Co-operation and Development
OPEC+	Petroleum Exporting Countries Plus
RHQ	Regional Headquarters
SDG	Sustainable Development Goals
SME	small and medium-sized enterprise
STC	Southern Transitional Council
UAE	United Arab Emirates
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UNSC	United Nations Security Council
WHO	World Health Organization

Events over the past ten years have decisively changed the political landscape in the Middle East. The states in the Gulf region have also been affected by these developments. Even as US troop contingents have largely been withdrawn from Iraq, the new superpower China is positioning itself in the region and exerting more and more influence – in ways beyond the normal economic level, as indicated by the reconciliation between the two main regional rivals Saudi Arabia and Iran facilitated by China in March 2023. At the same time, the Corona pandemic and subsequent bottlenecks in global supply chains have created new social challenges on the ground. The biggest challenge of all for the region is still in its infancy: With advancing climate change, processes are taking place that have the potential to once again upend the entire security-political structure, with consequences for the region's immediate neighbors, and extending to the European Union. This paper thus analyzes the three main gamechangers for the Arab Gulf States – China, Corona and climate change – by addressing chances and challenges for regional cooperation and implications for European actors.

Introduction¹

When the first cases of the Coronavirus appeared in January 2020, initial unease also appeared in local societies of the Middle East region, and specifically in the member countries of the Gulf Cooperation Council (GCC): Saudi Arabia, the United Arab Emirates (UAE), Qatar, Bahrain, Kuwait, and Oman. The Corona pandemic had a large and expanding impact on the states in the Gulf, while subsequent developments from 2021 onwards also brought about political, economic and climatic changes that would fundamentally alter the region for decades to come. Even as the global supply bottlenecks and the economic slowdown in China caused an economic downturn and temporary recession in the Middle East, Beijing was able to massively expand its own influence in the governments of the Gulf as well as improve its image in the course of its Corona diplomacy. In the shadow of its expanded Silk Road initiative, Beijing was quick to use its existing ties to gain new economic and, more recently, security and political influence, as indicated by its facilitating role in the diplomatic reconciliation between the two regional rivals Saudi Arabia and Iran in March 2023. As a result, new dependencies have emerged in the last two years, which the communist leadership in Beijing well knows

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how to use for China's advantage. The Russian invasion of Ukraine in February 2022 caused a new security crisis, and it was not surprising that China, which cooperates with Russia, also used its influence in the Middle East to assert its own narrative on the ground and in various international bodies. As a result, to this day some Gulf states, such as the UAE, do not condemn the Russian war of aggression on Ukraine and regularly abstain in the respective United Nations (UN) sessions (Leshiner 2022). But even as all these political processes are putting more and more pressure on the Gulf region, the rapidly advancing climate change will pose even greater challenges for the respective Gulf governments. New heat records regularly topping 50°C, increasingly frequent sandstorms and a growing water shortage in large parts of the Middle East are putting barely manageable pressure on the societies in the region, and call for increasingly urgent solutions (Zitties & Lelieveld 2022).

Driven by these three C's – Corona, China and climate change – the powerhouses in the Gulf region need to adapt to a new global environment that is in tectonic flux, even as they appraise these gamechangers as both challenges and opportunities. On different levels, the Gulf monarchies seek to find new approaches and strategies to deal with the three C's in order to consolidate power, promote economic transformation and regional reconciliation, and increase their engagement on climate action and vaccination diplomacy at the multilateral and international level. In addition, regional economic and political competition have increased as the Gulf monarchies are driven by national interests to preserve economic, political, and social resilience in times of growing global challenges.

Corona – Aftermath of the Epidemic

The outbreak of COVID-19 resulted in a profound disruption of public life and economic activity and constituted a serious challenge for the Gulf monarchies, framed as a "dual shock" (Arezki & Nguyen 2020) due to disruptions of global supply chains and declining oil prices. From early on, all GCC countries took far-reaching measures to combat COVID-19: International air traffic was largely suspended, national borders were closed, entry bans declared for all foreigners, and nationwide curfews imposed (El-Saharty et al. 2020). The enforcement of quarantine regulations was strictly handled, which in turn also provided an opportunity for Gulf leaderships to enforce comprehensive digital surveillance systems. In the UAE, Saudi Arabia, Oman, and Qatar, for example, drones were used to take temperature measurements, to sterilize public spaces and to break up social gatherings (Kumar 2020; *Al-Bawaba* 2020; *Times of Oman* 2020; *The*

Peninsula 2020). Consequently, the COVID-19 pandemic provided the authoritarian leaderships a useful window of opportunity: to consolidate their (autocratic) power structures (Demmelhuber, Gurol & Zumbrägel 2022a; Demmelhuber, Gurol & Zumbrägel 2022b; Dunne 2020); marginalize potential veto-players; stigmatize potential outsiders; and promote hypernationalist narratives to preserve leaderships' legitimacy and social cohesion (Blumberg 2020).

On an economic level, the fall in oil prices caused by the pandemic created massive budget shortfalls in most Gulf monarchies based on their continued dependence on revenues from fossil resources. The structural problems that the oil-dependent rentier state systems were already experiencing before the pandemic and that had intensified due to the fall in oil prices between 2014 and 2018 accelerated during the pandemic, increasing the pressure on the respective governments to diversify their economies away from oil. In addition, the Gulf monarchies' average public debt-to-GDP ratio rose from 16.2% in 2006 to 41.4% in 2020 (IMF 2020). Oil and gas production revenues still dominate their respective budgets; but with the steady decline in international energy prices, accelerated by the outbreak of the pandemic, this system has reached its limits due to the current decline in a global oil demand. The International Energy Agency (IEA) forecasted a drop in oil demand of 9.3 million barrels a day in 2020 (IEA 2020), roughly equivalent to Saudi Arabia's daily oil production. Whereas the oil price for a barrel of Brent oil was still at USD 64 per barrel in 2019, it declined to USD 40 per barrel in June 2020 (Kabbani 2020). As a consequence, all of the oil-producing Gulf monarchies recorded a significant decline in revenues: The losses from oil production for 2020 for all Gulf states were estimated at USD 270 billion in July 2020 (IMF 2020).

To counterbalance the negative implications of the pandemic, a combination of fiscal as well as monetary and macro-financial measures were introduced. On the one hand, financial stimulus packages were provided to support wide parts of the population. Public sector salaries or social benefits were increased, complemented with tax breaks and deferrals, preferential loans and the lowering of interest rates, as well as the increase or renewed introduction of energy subsidies. In Saudi Arabia and the UAE, national aid packages amounted to 2.3% and 2.1% of GDP, respectively. Overall, support payments in the Gulf states totaled USD 97 billion (Kabbani 2020). On the other hand, the pandemic also forced the Gulf governments to fundamentally modify their traditional social contracts, which was illustrated by the introduction of value-added taxes. These taxes were tripled from 5% to 15% in Saudi Arabia during the pandemic, and from 5% to 10% in Bahrain in January 2022. By and large, wide parts of the (national) Gulf societies accepted the leaderships' decisionmaking as necessary measures to cope with the crisis. However, the large migrant populations were particularly affected by curfews, crowded accommodation

and insufficient hygienic conditions, as well as job insecurity in the context of the pandemic-related economic crisis (Al-Ghalib Alsharif & Malit, Jr. 2020). In this regard, the pandemic seriously limited the mobility of migrants in a hierarchical globalized regime of asymmetric power. As Gulf monarchies aim to create jobs for young nationals, the pandemic was taken as an opportunity by respective governments to promote nationalization efforts by reducing the massive reliance on – largely oil revenue-financed – migrant workers. As a consequence, the repatriation of blue-collar labor migrants (including deportations) to their home countries (e.g. Bangladesh, Egypt, Ethiopia, India, Jordan, Pakistan, Syria or Yemen) increased significantly during the pandemic. Moreover, migrant workers regularly faced stigmatization for being (allegedly) responsible for the spread of the virus (Babar 2020) and were kept under harsh conditions in detention centers (HRW 2020). These changes put additional pressure on their home countries in the form of lower remittances and increasing unemployment.

Pivot to China? The Gulf States in an Emerging Multipolar World Order

Despite all these consequences that the Corona pandemic had in store for the states in the Gulf region, it was mainly China that was able to profit from the developments. For instance, by supplying masks or the dubiously effective Sinovac vaccine, Beijing not only managed to improve its image locally, but was also able to build up another field of action within its Silk Road initiative by investing in the Gulf health sector. As such, health care emerged as another element of China's outreach to the Gulf region and thus extended China's influence in the Middle East (Gurol 2023).

Driven by its rapidly growing economic and geopolitical strength, China's influence in the Gulf states has increased considerably in recent years. Especially in Saudi Arabia, Qatar and the UAE, China is one of the most important economic partners on many levels: These states are the main global exporters of gas, oil and other petrochemical products and can thus significantly satisfy China's hunger for energy. For example, China imported 910 million barrels of oil from Saudi Arabia in 2020, accounting for 32% of China's total oil imports (Begçecanlı 2021). Even as these oil exports promise high profits for the Gulf states at the current oil prices on the market, their governments and financial budgets are becoming increasingly dependent on China as a result of

the development. This is impressively illustrated by Iraq, which now channels more than 50% of its oil exports to China (Iraq Oil Report 2022).

Trade relations between China and the Gulf monarchies have also grown steadily outside the energy sector. In 2020, the mutual trade volume amounted to USD 197 billion, compared to USD 190 billion in the previous year. China has now become the largest trading partner with the Gulf states, with numerous agreements signed between the respective states within the last three years, covering sectors such as energy, infrastructure and finance. China considers the Gulf region as a relevant pillar of its Belt and Road Initiative (BRI) (Bachulska & Bianco 2023). At the same time, Beijing is also trying to initiate new and deeper relations in the field of security policy. During Xi Jinping's last visit to Riyadh in December 2022, a roadmap was agreed for the development of new strategic security agreements by 2027 in order to strengthen mutual cooperation in the long term (Mogelniecki 2023).

BRI, spearheaded and launched by Xi Jinping, has contributed significantly to China's rise in the region. While above descriptions of the BRI may picture a rather abstract and enormous project, specifics becomes clearer when viewing concrete projects in individual countries. The USD 1.1 trillion that Beijing has budgeted for all projects by 2025 are essentially made up of many small and often bilateral development and economic projects. In line with the overall orientation of the BRI and China's own needs, investments and partnerships are concentrated on the construction, transport, logistics, energy, digital and security sectors. For example, Chinese companies are involved in the expansion of an Iranian high-speed rail line from Marshad to Tehran, are investing in the development of new power plants in Turkey, and are seeking contracts in the expansion of the Suez Canal. It is a similar story with projects in the GCC states, where Chinese companies are investing in solar parks, expanding the rail line between Medina and Mecca, and helping to design smart cities such as the one in Jeddah (Lukas 2019).

Despite regional rivalries, such as between Iran and Saudi Arabia, Beijing maintains lucrative economic relations with all players, as Chinese investment plays a different role on the two sides of the Gulf: While Iran is in massive need of support to maintain its largely dilapidated infrastructure, the Gulf monarchies see Beijing as a useful lever and opportunity for economic diversification vis-à-vis their original allies from the West. This puts the UAE and Saudi Arabia in particular in a much stronger position in negotiations with Beijing than for example Iraq, a country which is only of interest to China because of its crude oil deposits.

While all these processes were well marketed by the Chinese side on an open stage, a change in security policy has also taken place within the last few

years, which is only becoming increasingly evident now in 2023. While the BRI initially had an economic-political focus, new components are increasingly being added in the digital and military fields: Chinese companies such as Huawei, ToTok, Xiaomi and Baidu are investing heavily in the expansion of the digital infrastructure in the Middle East. In the UAE and Saudi Arabia, for example, completely new smart cities are being built to automate everyday life, using almost exclusively Chinese technologies (Gurol 2023). The same applies to broadband expansion: While the 5G network expansion by Huawei caused great concern in Europe (Waterfield 2023), there was hardly any discussion in the Gulf states. Thus, the Chinese central government and its state-owned enterprises have gained extensive access to the digital infrastructure in the Gulf region, which is likely to become a security challenge in future conflicts, especially for Western companies and Gulf state authorities (Gurol 2023).

The continuation of increasing influence of China in the region can also be seen at the level of building up its own military capacities. China under Xi Jinping, unlike the decades before, is no longer willing to show consideration for Western security interests. China sells its new weapons systems wherever the United States is not prepared to supply armaments or where they are too expensive. An example of this is the sale of drone systems to the UAE in 2018: After Washington had banned the sale of MQ-9 Reaper drones to the Emirates in deference to Israeli interests, the Emirates switched to the Chinese product and subsequently also bought Wing-Loong II drones from China. Thus, with its Wing-Loong and CH3/4 drone systems, China has managed to become one of the largest suppliers of armed drones in the region, alongside Turkey (Lukas 2019). China's role in the new policy of rapprochement between Iran and Saudi Arabia, beginning March 2023, further highlights that containing Chinese influence in the Middle East is likely to be an extremely difficult undertaking. Particularly for the main players in the region to date, first and foremost the United States and its Western allies, these developments are likely to cause difficulties at various levels – from the economy to security policy. As hardly ever seen before, Beijing appears as the 'doer' of a new regional policy and also presents itself accordingly in public (*Le Monde* 2023). The rapprochement was brokered by the Omani and Iraqi governments in particular, but it was signed in Beijing in the presence of Chinese President Xi Jinping, which means that these developments can certainly be seen as a gamechanger. China, as outlined above, has constantly grown in economic relevance for both countries and serves as the main trade partners for Iran and Saudi Arabia. By providing backdoor channels to facilitate the bilateral normalization agreement, China has entered the diplomatic arena and aims to present itself as an 'honest broker'.

Big Storm Ahead: The Climate Change and Its Impact on the Region

When another heat wave hit the Gulf region in March 2022, life in large sections of society went into a slump. With temperatures of over 50°C in Abu Dhabi or even 53°C for days on end, normal everyday life was almost inconceivable and working in the open air became virtually impossible. If developments to date in curbing greenhouse gas emissions were to remain at current levels, such heat waves would occur on more than 200 days a year and, from 2060, would even offer the potential for heat waves exceeding 60°C (Zittis et al. 2021). Increasingly frequent droughts and heat waves are draining vast swaths of land in the GCC states, causing massive damage to infrastructure as well as regularly costing lives (Lukas 2023). The Saudi city of Jeddah, for example, was hit twice by flash floods in December 2022 alone, with entire streets completely devastated. Such events exemplify an almost paradoxical development in dealing with the consequences of climate change in the entire Gulf region: Due to more traditional policy fields and new mega-events such as the World Cup in Qatar in 2022, governments are falling behind in addressing what is probably the greatest threat to the medium- and long-term stability of the Middle East (Zullo 2022).

The Gulf states are in many ways particularly vulnerable to the impacts of climate change due to their geographical location, arid climate and dependence on fossil fuels (Zumbrägel 2022). These countries are already experiencing a range of climate-related impacts, including rising temperatures, sea-level rise and water scarcity, all of which pose significant challenges to their economies, societies and security infrastructure. One of the most serious impacts of climate change in the Gulf states is the rise in temperature. According to a study by the Climate and Atmosphere Research Centre of the Cyprus Institute, the average temperature in the Gulf states has increased by about 1.5°C since the pre-industrialization period. This rise in temperature is projected to continue, with an increase of 4°C by 2075 (Zittis et al. 2021).

In terms of public health, the rise in temperatures is leading to an increase in heat-related illnesses and deaths. According to a study by the World Health Organization (WHO), the number of deaths due to heat waves in the Eastern Mediterranean region, which includes the Gulf states, is expected to increase from 5,000 per year in the 2000s to 15,000 per year by the 2050s. This increase in heat-related deaths is particularly worrying given the large population of older people in the region who are more vulnerable to heat stress (Neira et al. 2023).

Similarly, agriculture in the Gulf states faces significant challenges due to climate change. The region is already one of the driest and hottest in the world, and climate change is exacerbating water scarcity and reducing crop yields. According to the Food and Agriculture Organization (FAO) of the UN, crop yields in the region are expected to decline by up to 20% by 2050 due to rising temperatures and decreasing water availability (Abdel Fattah 2022). This decline in agricultural productivity could have a significant impact on the region's food security and economy, which relies on imported food. As agricultural supplier countries in Asia, South America, Europe and the US will also be affected by similar trends, Gulf governments will have to adjust to significantly higher food prices on world markets, putting additional strain on financial budgets across the Middle East.

Water scarcity is already a significant challenge in the Gulf states as the region has one of the highest per capita water consumption rates in the world and at the same time has hardly any natural water reservoirs left in the form of surface waters or aquifers (Sherif et al. 2023). Climate change is exacerbating this challenge by reducing water availability and increasing water consumption due to population growth and economic development. According to the World Bank, water availability in the region is expected to decline by up to 50% by 2050 due to climate change, meaning that Gulf countries will face increasing water scarcity, with internal and external conflicts over resources in the future (World Bank Group 2018). Methods in the region to escape the water shortage are either still at the beginning of their development (water recycling plants) and not yet used on a large scale, or do not appear sustainable enough with current technology. In particular, the massive expansion of seawater desalination plants in the region is unlikely to contribute to solving the problem, as the current state-of-the-art plants are extremely energy-intensive and largely run with fossil fuels. In addition, no solution has yet been found for the highly toxic wastewater, which means that the surrounding areas of such plants are subject to high environmental pollution (Chibani 2023).

In addition to rising temperatures and water scarcity, the region is affected by rising sea levels due to global warming. Bahrain is the most affected and is already struggling with coastal erosion and flooding (Al-Madany, Abdalla & Abdu 2006). According to the World Bank, up to 12% of the population in the Gulf states will be affected by sea-level rise and face possible displacement from their homes, which will first affect internal migration and eventually intranational migration if appropriate measures are not adopted within the next few years (Lukas 2020).

In the face of these challenges, Gulf countries have started to take national measures to adapt to climate change, including the promotion of renewable

energy and the implementation of water management strategies. Saudi Arabia, for example, has set ambitious renewable energy targets, including the installation of 58.7 gigawatt (GW) of solar energy by 2030 (EIU 2023). The introduction of new technologies for energy transformation or for the development of new farming methods such as vertical gardening are also increasingly being envisaged in the Gulf states in order to increase their own resilience in the food sector and minimize dependence on supplier countries. In particular, increasing societal and state resilience must be given new priority in policy if the monarchies in the Gulf want to maintain their own stability in the long term. As it is imperative for the Gulf states to not only complete their own energy transition but also to reduce the exploration and sale of fossil fuels such as oil and gas in order to meet the Paris Agreement climate targets of 2015, the state leaders in the region must develop new economic models.

Implications for the Gulf States

As a result of all of the above-mentioned changes, new challenges are also emerging for the respective Gulf governments and regional and local actors, to which the states must respond promptly on a domestic, regional, and international level in order to develop a sustainable economic and financial system. As China's growing influence in the region and the increased impact of climate change will bring about fundamental transformations in the political and social fabric, minor compromise solutions will hardly be sufficient to maintain the current status.

Domestic Economic Revitalization after the Pandemic: Economic and Green Recovery

Despite the negative economic fallout of the pandemic, Gulf economies recovered rapidly due to rising oil prices and growing energy demand driven by the Russian war on Ukraine. In the short-term, the stimulus packages prevented a deterioration of the socio-economic situation. Financial reserves and access to debt markets allowed the Gulf monarchies to cushion the blow from less oil income and the disruption of economic activity. After the start of the Russian war against Ukraine, oil prices increased and improved the overall socio-economic situation of the GCC states, as indicated in the case of Saudi Arabia as the kingdom re-established its status as a global oil producer (UN 2020). Economic growth rose to 3.2% in 2021, to 7.6% in 2022, and is further estimated to remain relatively constant by 2025 mainly driven by a 14.8%

GDP growth in the oil and gas sector from 2020–2021. The share of oil in state revenues also increased from 53% in 2020 to 58% in 2021 (Espey 2022). In this regard, GDP per capita also recovered from USD 23,000 in 2021 to almost USD 28,000 in 2022 whereas the total GDP rose from USD 833.5 billion to more than USD 1 trillion in the same period. (GTAI 2022) In 2022, oil revenues amounted to USD 326 billion which is the highest profit within ten years (Middle East Monitor 2023).

In particular, rising exports to China have contributed to this result and are further accompanied by intensified Chinese investments in the Gulf region. Saudi Arabia, for instance, delivered 87.49 million tonnes of crude oil to China, which made the kingdom the largest oil supplier for China followed by Russia (86.25 million tonnes) (Reuters 2023a). Such revenues are needed to promote economic diversification and address socio-economic challenges. In particular, Saudi Arabia is undergoing a remarkable socio-economic transformation under Muhammad bin Salman: The ambitious Saudi plans to transform its rentier state economy are in dire need of direct foreign investment and promotion of a promising business climate to shape economic growth in a sustainable way. It is estimated that non-oil GDP could increase from 4.2% in 2021 to 8.8% in 2026, whereas non-oil revenues have already doubled from 2017 to 2021 to reach 12.8%. Furthermore, non-oil GDP is expected to increase to 50% whereas foreign direct investment (FDI) should jump from the current 0.8% to 5.7% of GDP (Government of Saudi Arabia). Between 2000 and 2020, efforts to minimize reliability on hydrocarbon revenues have resulted in a decline from 40% to 30%. In particular, the integration of female employers has been promoted (Alsharif 2019): Between 2017 and 2022, female job market participation increased from 17.5% to 33.6% (IMF 2022) and 38% of Saudi small and medium-sized enterprises (SME) are run by women (Government of Saudi Arabia) as the government has introduced a variety of efforts to promote women entering the job market in sectors such as aviation, tourism, military and law. Remarkable steps to promote female empowerment included the lift of the driving ban for women in June 2018, reforms in the guardianship (*mahram*) system including the allowance for women to travel alone without male company, as well as the ability of women to apply for a passport, register a divorce or open a business without the guardian's consent. Similar efforts are taking place in other Gulf countries – with varying success (Ben Mimoune & Kabbani 2023).

However, significant challenges remain: Despite efforts to promote female empowerment, still 27.9% of all women are unemployed. In general, unemployment among the young generation (15–24 years) stood at 16.6% in 2022, whereas 40% of those in their early twenties are without a job (Harvard Kennedy School 2019). During the pandemic, unemployment again increased

(General Authority for Statistics 2020) due to the implementation of curfews and lockdowns and limited mobility, impacting non-oil sectors in which mainly young nationals are employed, such as entertainment, hospitality, or tourism. By 2030, up to 4.5 million young Saudi nationals are expected to enter the job market, a number the already over-bloated public sector cannot absorb (McKinsey & Company 2015). Between 2016 and 2020, FDI influx tripled from USD 1.42 billion to USD 4.7 billion, whereas the number of SMEs increased by 40% (Government of Saudi Arabia). However, the FDI remains significantly low as it still only contributes 2.31% of GDP and lags behind official expectations. As such, diversification of international partnerships has gained significant momentum in Saudi Arabia's policymaking by reaching out to regional players, such as Turkey or Qatar, with whom bilateral relations have been tense in recent years.

In addition to economic transformation, the implications of climate change and Corona also resulted in Gulf efforts to push a "green recovery" (Al-Sarihi 2021) by engaging heavily in national and regional environmental initiatives and climate action as indicated by the Saudi Green Initiative. By promoting climate adaptation and mitigation measures, the Gulf monarchies are following two main objectives: First, they have to develop strategies and approaches in order to deal with climate change and global energy transition. Hence, they invest heavily in alternative energy such as hydrogen (Ansari 2022), among others, and establish energy partnerships with new partners such as Germany. They thus aim to preserve national legitimacy and political power as environmental awareness has become a hot topic in all Gulf societies. Therefore, the leaders want to portray themselves as "green regional champions" in order to improve their reputation (Zumbrägel 2022: 223). Second, green recovery aims to create jobs and diversify the economy, which is a top priority in all Gulf monarchies' political agendas.

Regional Reconciliation: A Driver for Economic Diversification

Driven by the negative implications of the pandemic and rising regional instability caused by intensifying rivalries such as with Iran or during the so-called 'Gulf rift' between Qatar and the 'blockading quartet' consisting of Saudi Arabia, the UAE, Bahrain, and Egypt (Krieg 2019; Ulrichsen 2020), the Gulf region has entered a new dynamic towards enhanced reconciliation efforts in order to overcome tensions and mitigate conflicts. By pursuing more transactional relationships based on mutual interest in specific policy files such as economic partnership, trade and investment, the respective governments are aiming at managing ideational tensions and rivalries. This trend

became particularly obvious in the case of Saudi Arabia: Whereas the kingdom's foreign policymaking was mainly driven by a confrontational foreign policy approach until the end of 2019 (Sunik 2018), the kingdom's leadership under Crown Prince Muhammad bin Salman has since then shifted towards more pragmatism and regional dialogue. For instance, the "Saudi 9/11" (Bostock 2019), caused by the drone and missile attacks most likely started by Iran on the two Saudi oil refineries Abqaiq and Khurais (Hubbard, Karasz & Reed 2019) in September 2019, underscored to the Saudi leadership its own vulnerability and the lack of US support as a security provider. Combined with the recession caused by the above-mentioned 'dual shock', the kingdom has intensified its diplomatic efforts by reaching out to regional rivals such as Qatar, Turkey and – most significantly – to Iran. After five rounds of direct talks between Iranian and Saudi security officials that started in 2020 and were facilitated by Iraq and Oman (Al-Aloosy 2022), in March 2023 both countries signed an agreement, facilitated by China, to restore diplomatic ties that had been cut in 2016 (Khatib 2023). Saudi Arabia also seeks to deescalate the conflict in Yemen and is engaging directly with the Houthis (Kirchner 2023). Other Gulf monarchies, such as the UAE or Qatar, have already engaged with Turkey economically and diplomatically. In contrast to the start of the Syrian conflict in 2011, diplomatic normalization with the Syrian regime under President Bashar al-Assad has become a new reality: In May 2023, Syria was reintegrated into the Arab League, twelve years after its membership was suspended (*Aljazeera* 2023). The kingdom and other Gulf monarchies consider regional security as a relevant prerequisite for economic diversification and turn towards de-escalation as the most promising pathway to realize their particular economic motivations (Koch 2023). As part of this trajectory, it seems that the Gulf governments have realized that they need stability to secure their own power and their business models. As hosts of international sporting events, attractive destinations for global luxury tourists, promoters of international science, architecture and art, and trendsetters in digitalization, technology and commercialization, Saudi Arabia, the UAE and Qatar are seen as symbols of immeasurable wealth, entrepreneurial risk-taking and global appeal. They have established themselves as their own brand, their own models of success on the globalized capital market, and as influential investors and financial centers. In order to preserve their own business model, they are interested in finding a *modus operandi* for joint collaboration.

Nonetheless, deep strategic divergences between the respective regional players are not yet substantially resolved, which leads to increased regional rivalry and growing tensions, in particular between Saudi Arabia and the UAE on different files. In Yemen, Saudi Arabia is concerned about the UAE's support for the secessionist movement in the South led by the Southern

Transitional Council (STC) and its affiliated armed forces, as Riyadh supports the Presidential Leadership Council (of which the STC is a part) as political representative of Yemen as a whole. Furthermore, the UAE has manifested its role in Yemen as it holds geostrategic locations such as in the governorates of Aden, Hadhramawt, Shabwa, Ta'iz and elsewhere. In doing so, the UAE has established a maritime network to consolidate its position as a logistical champion across the region and beyond. As Saudi Arabia also aims to gain more maritime leverage in the Red Sea and around the Horn of Africa in order to promote its giga project, the smart city NEOM, as a new logistical hub, competition with the UAE is likely to intensify in this field (Baabood 2023). The more Riyadh flexes its muscle as the only regional economic and political superpower, the more the UAE's business model is under attack: In order to boost the kingdom's business position, international companies are required to relocate their regional headquarters to Saudi Arabia as outlined in the Regional Headquarters (RHQ) Programme, which was launched by the Ministry of Investment and the Royal Commission for Riyadh City and comes into effect 1 January 2024 (Clyde & Co. 2023). This prevents all Saudi government agencies from contracting with companies that do not have a RHQ in the country. This decision undermines the status of Abu Dhabi and Dubai as global and regional business hubs and thus spurs tensions between Saudi Arabia and the UAE.

Diversification of Global Partnerships: Balancing Interests in a Multi-Polar World

In a multipolar world, the Gulf monarchies are following a hedging approach towards global powers such as China and Russia on the one hand, and the US and Europe on the other hand (Bianco 2022). This balancing act is driven by the motivation to promote national interests and a growing reluctance to take sides. Here, the three gamechangers also drive the strategic calculation of most Gulf monarchies to develop a more independent and self-reliant partnership model. Growing mistrust in the credibility of the West, in particular the US, as a reliable security partner shapes the public and political discourse across wide parts of the Gulf region: The West is perceived in broad terms as a neo-colonial actor driven by double standards, a lack of respect and value-oriented motives that neglect key Gulf security concerns (for instance, Iran). As a consequence, the Gulf monarchies are self-confidentially developing their own partnership model, which is based on pragmatic and opportunistic diversification and non-alignment. This trend has further increased in context of the Russian war of aggression against Ukraine. While traditional allies such as the US and Europe had expected the Gulf monarchies to stand up to the Russian aggressor once the war began in February 2022, Saudi Arabia and the

UAE in particular stuck to their agreement with Russia within the framework of the Organization of the Petroleum Exporting Countries Plus (OPEC+). Their goal was to not jeopardize their own oil policy by massively lowering prices in order to torpedo Russia's oil deals, although US President Joe Biden traveled to Riyadh specifically in the summer of 2022 to convince the Saudi crown prince to back away from Russia – efforts which were unsuccessful (Lefebvre 2022). Furthermore, the UAE abstained from the United Nations Security Council (UNSC) when Russia's actions were condemned shortly after the war began, and Russia's expulsion from the UN Human Rights Council was also opposed by the Gulf monarchies. From the perspective of the Gulf monarchies, it is clear that they need to secure their position in times of a changing multipolar world order, in which unilateral partnerships with the West as 'junior partners' (Sons 2022) are seen as a hindrance. Instead, the Gulf approach is to maneuver smartly between the different poles in order to pursue national interests and preserve economic and security priorities. As such, they are looking for additional non-Western partners on the economic, political and military levels. In addition to Russia, these partners include India and above all China, as outlined above (Fulton 2019). For instance, Saudi Arabia announced in March 2023 its joining of the Chinese-led Shanghai Cooperation Organization (*Reuters* 2023b). Whereas the United States is likely to remain a close and reliable partner in security, energy and economic cooperation, the relationship has undergone a significant transition in recent years and the Gulf monarchies' 'pivot to Asia' has intensified. However, this approach is not an 'either-or' but an 'as well as': The Gulf monarchies know their value to Western partners in a fundamentally changing geopolitical landscape. As relevant energy providers, they have improved their international standing in post-COVID-19 times and the ongoing energy crisis due to the Ukraine war as indicated by energy partnerships with countries such as Germany (Sons 2023). Moreover, governments in Washington, Paris or Berlin are aware that a further turn of the Gulf states toward Russia or China should be prevented.

Recalibration of Development Policy: New Partnerships in Times of Crisis

In recent decades, four of the Gulf monarchies – Saudi Arabia, the UAE, Kuwait, and Qatar – have emerged as global providers of humanitarian and development assistance (Salisbury 2018). Mainly, development contributions are given to selected countries of utmost strategic interest, which is the case in Egypt, Yemen and Morocco, through budget support in the form of deposits in the beneficiary's national banks to stabilize cash reserves. As such, aid policies form an instrument of economic statecraft, which Karen Young defines as "using economic means to achieve foreign policy goals" (Young 2020: 2) in

order to gain internal and external support (i.e. legitimacy) while remaining in full control over the economic and political spheres. The general political motivation to provide development assistance is closely connected to the three vital interests that guide the Gulf monarchies' overarching foreign policymaking. These are the interest to (1) safeguard the role of the respective royal families as the only legitimate rulers, (2) preserve domestic stability and regional security, and (3) strengthen and diversify the respective economies (Sons & Wiese 2015).

In recent years, the Gulf states' respective developmental policies have been undergoing significant changes as they shift away from traditional forms of religious aid provision towards a new hybrid form of development assistance, which reflects elements of "Northern' humanitarianism" (Carpi 2020: 415) by aligning with the Sustainable Development Goals (SDG) and multilateral organizations such as the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD). By cooperating with international and multilateral organizations, the Gulf monarchies further aim to improve their image as reliable and trustworthy partners in international cooperation. For instance, all four Gulf states have become participants of the OECD-DAC (UAE in 2014, Qatar in 2016 and Saudi Arabia and Kuwait in 2018). In doing so, they improved the provision of data and statistics on their official development assistance (ODA).

Driven by the implications of climate change and the pandemic – two of the three C's – the Gulf monarchies continue to modify and transform their respective aid policies on two levels: First, vaccination diplomacy became a main driver of regional rapprochement during COVID-19 (Soubrier 2020), indicated by humanitarian aid provision from the UAE to Iran or the cooperation of the GCC with international players such as the WHO or the Global Alliance for Vaccines and Immunisation (GAVI) to fight the pandemic.² Second, green developmentalism became a new driver of Gulf humanitarianism: The oil- and gas-exporting Gulf Arab monarchies have recently developed ambitious national programs and initiatives on sustainable development, environmental protection and climate change mitigation and adaptation efforts (Luciani & Moerenhout 2021; Luomi 2012). Such a change in perception is particularly evident in the political debate on devastation and water scarcity, which affects all Gulf states. For example, Saudi Arabia, Kuwait, Qatar and the UAE have signed the 2016 Paris Agreement and are increasingly engaged in the development of renewable energy and in some committees and forums of the United Nations Framework Convention on Climate Change (UNFCCC). At the

² GAVI was supported by USD 150 million from Saudi Arabia, USD 2.5 million from Bahrain, USD 40 million from Kuwait, USD 1 million from Oman and USD 20 million from Qatar. See <https://www.gavi.org> (19.06.2023).

same time, multilateral regional organizations such as the Islamic Development Bank (IsDB) are pushing triangular cooperation on climate action by introduction of its Climate Change Action Plan (2020-2025) in 2020 (IsDB 2020). On an international level environmental diplomacy is becoming more important, with leading countries such as Saudi Arabia and the UAE announcing their own regional climate strategies. This is not only based on a rationale to alter unsustainable models but also to improve the leaderships' image towards growing demands of an eco-conscious youth and international community. Here, Saudi Arabia's government has launched the Green Middle East Initiative in 2021 to present itself as a green champion and promote regional environmentalism. As a consequence, more engagement in green development reflects their strategic interest in promoting 'green credentials' as part of their socioeconomic diversification approach, as branding initiatives, and instruments of soft power projection (Koch 2022). As there is a shift from humanitarian aid to technical cooperation, European actors could promote projects in the fields of energy efficiency, clean energy, climate action education, capacity development and training in water and air pollution-related topics. In addressing such green and health-related topics in development cooperation, the Gulf monarchies aim to adapt to a shifting global landscape shaped by a multi-polar world order and growing concerns about pandemics or climate change. These realities constitute mutual challenges and could thus result in increased regional dialogue.

Conclusion and Recommendations

The triple-C gamechangers of COVID-19, China, and climate change have and continue to heavily impact regional developments in the Gulf. Driven by a pressing need to diversify foreign partnerships and national economies, the Gulf monarchies have started to engage in more diplomacy and less confrontation in order to preserve regional stability and position themselves favorably in a multipolar world. Saudi Arabia and the UAE in particular do not want to choose sides amid an increased polarization of global politics, such as the Russian war on Ukraine: Rather, they are showcasing their interest to follow a 'Gulf first' approach and to emancipate from the West. Regional reconciliation is thus a matter of necessity and pragmatism.

This balancing strategy entails chances and challenges for future cooperation between Europe and the Gulf monarchies. On the one hand, the three C's significantly contributed to growing Gulf autonomy and partnership diversification, both which complicate cooperation with Europe. With a growing presence of China in the region, global rivalry and competition is likely to

increase. The recovery from COVID-19 and the implications of climate change have driven a nationalist Gulf policy characterized by a 'Gulf first' approach in politics and economy. Furthermore, a Gulf energy transition does not always align with the European understanding of a green energy transition, as fossil resources will remain relevant in the Gulf monarchies' energy mix. On the other hand, Europe needs to develop a comprehensive strategy to deal with the Gulf region in times of a multipolar global order. In the aftermath of the pandemic, China's rising influence in the region and the increasing impacts of climate change will have direct repercussions on both the state and societal landscape of the Gulf states, as well as on European actors that also need to adapt to these new realities. The direct impact will initially be felt by European companies active in the region, while indirect consequences such as increased migration movements toward southern Europe can initially only be expected in the medium term. European decision-makers therefore need to prepare for the developments now, and the following recommendations for action may be decisive.

It is thus recommended that European state actors:

- **Create new opportunities to make European companies more competitive with Chinese rivals.**

So far, European companies in particular have found it difficult to compete in regions where Chinese companies are active. Since the Chinese state, in the form of ExIm Bank or AIB, grants significantly more favorable credit conditions for its own companies, German companies, for example, are less able to take risks, as they often lack this protective shield. In addition, bureaucratic hurdles at various levels within the EU limit support for investments in third countries. Initiatives such as the EU Commission's Global Gateway can be a good first approach here and should be significantly expanded.

- **Support the regional actors on site in their technological and economic energy transition.**

Most of the GCC states do not lack financial resources. Rather, local energy transformation requires, in particular, technological and economic cooperation. Top European companies such as Siemens or Linde have a long tradition in the field of renewable energies and can share their knowledge, especially in the development of the hydrogen network. In this respect, new financial incentives must be created, especially for European companies, so that the field is not left entirely to Chinese players.

■ **Assist in strengthening societal and governmental resilience to climate change.**

As described, the Middle East in particular will be massively affected by the impacts of climate change within the next few decades, thus there is a need for significant local societal resilience strengthening. State actors must be able to cope with more frequent disasters. Here, too, European organizations can draw on long experience and must be prepared and equipped for increased missions in third countries. Cooperation must also be initiated and existing cooperation expanded in risk screening and foresight programs. For example, Dutch initiatives such as the Integrated Coastal Zone Management (ICZM) in Egypt and the Emirates are already active in an advisory capacity in coastal protection management in the region.

■ **Enhance developmental cooperation in the field of climate action.**

In this regard, development cooperation could provide a functioning instrument to enhance European cooperation with the Gulf monarchies in third countries affected by climate change and environmental disasters. As Gulf aid undergoes a significant shift from financial towards technical assistance, new avenues of cooperation and partner institutions are emerging to join forces in mutual environmental initiatives. In particular, the energy-climate-health nexus offers potential for closer collaboration on a regional and international level.

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