

DRUM COMMODITIES LIMITED**MIDDLE EAST POLITICS 'OIL, JIHAD AND THE ARAB SPRING'****EXECUTIVE SUMMARY****1. BACKGROUND**

- 1.1 On 16th December 2015, Dr Christopher Davidson of Durham University visited Drum Commodities Limited, and provided DCL staff with an insight into the current geopolitical situation in the Middle East.

2. KEY THEMES**2.1 The Arab Spring.**

- 2.1.1 Dr Davidson looked at the longer term consequences of the Arab Spring, and particularly the reaction of the Gulf States (Bahrain, The UAE, Qatar and Saudi Arabia) to the threat of uprisings.
- 2.1.1.1 He proposed that the interventionist policies of the Gulf States, often at the urging of their Western partners, will likely end in the near future given the economic challenges they are facing.
- 2.1.1.2 He also postulated that the failure of the intervention in Yemen has been a 'wake up call' for Saudi Arabia, which is starting to understand the weaknesses of its own military forces.
- 2.1.2 He also spoke of the reaction from Western governments to the Arab Spring, and particularly their willingness to ignore popular uprisings in allied states such as Bahrain, whilst intervening on behalf of protestors in Libya.

2.2 Political economy in the Gulf States.

- 2.2.1 Dr Davidson pointed to longer term problems in the Gulf States related to their state-citizen relationships. In particular, he highlighted the fact that citizens are currently willing to accept a lack of representative democracy, in return for a lack of taxes and other economic benefits.
- 2.2.2 He felt that in the long term, this relationship is unsustainable, especially when we look at the economic problems the Gulf States are currently undergoing.

2.3 Oil.

- 2.3.1 Dr Davidson spoke of the issues that are associated with the Gulf States' model of oil production, and in particular the high breakeven price on each barrel, and the slow reaction time in altering production output.
- 2.3.2 He made it clear that he saw the fall in oil prices as being a longer term issue.
- 2.3.3 With the Gulf States failing to diversify their economies sufficiently and move away from the reliance on oil revenue, it is likely that this will have an enormous impact on the region. This can already be seen from Saudi Arabia's decision to make significant withdrawals from its Sovereign Wealth Fund.

2.4 Sectarian divide.

- 2.4.1 Dr Davidson provided an overview of the current Sunni and Shia divide in the region, and particularly how its roots can be found in the 1980s conflict in Afghanistan, and the decision of the CIA and Saudi Arabia to fund radical Salafist groups in their fight against the Soviet Union.
- 2.4.2 He felt that regional powers such as Iran and Saudi Arabia are guilty of stirring up this 'hornets' nest' in order to gain short term victories in the proxy war in Syria, and that the consequences will be severe for future generations.

3. SUMMARY

- 3.1 Dr Davidson concluded that the current low oil price will persist in the medium term and this will put the Gulf States in a difficult position over the coming years. Some states have started to introduce a level of democratization in order to compensate citizens for economic reforms e.g. the introduction of income tax.
- 3.2 Saudi Arabia in particular is 'one to watch', with capital flight from the country underway. He felt that the economic problems here will have particularly far reaching consequences, with Saudi Arabia's ally Egypt already looking to Russia and Iran for support.
- 3.3 The Gulf States will no longer be able to bankroll foreign interventions at the behest of their Western allies. This will have a particular impact on the conflicts in Syria, Yemen and Libya, which are in many ways 'proxy wars'.