Middle East - Not a Hydrocarbon Hot Spring but a Hotbed of Conflict

Historically low oil prices and the severe impact the coronavirus pandemic is having on trade and the economy are being painfully felt in the Middle East and have added to the ongoing conflicts and made the region particularly volatile lately. The situation that is currently unfolding bodes new serious conflicts for the region. Moreover, the most explosive situation could unfold in Saudi Arabia due to the failure of Riyadh's recent policy and in the entire region.

The short-sighted decisions taken by the Saudi rulers and the collapse of oil prices have plunged the Kingdom into a serious political and economic crisis. The decision taken by Crown Prince Mohammed bin Salman Al Saud to lead a military intervention in Yemen in 2015 ended in a humiliating military defeat for the Kingdom, and now Riyadh has found itself face to face with an angry and unrelenting opponent, the Houthis, who know they have secured a resounding victory and are not going to give Mohammed bin Salman any chances to save his reputation. The Crown Prince’s venture has completely undermined any hopes Riyadh may have had of becoming a leading regional power and the authority of the Saudi rulers both within Saudi Arabia and beyond the Kingdom. The War in Yemen has left bin Salman with a significant amount of debt, the Saudi-led coalition collapsed, and the international community has accused Riyadh of committing war crimes.

The oil price war Saudi Arabia waged on the commodity market has dealt the Kingdom's own economy a heavy blow. The government had to resort to unpopular measures — VAT was tripled and the monthly cost-of-living allowance was scrapped, which could see the financial and economic crisis morphing into political turmoil. Riyadh has been spending its gold and foreign exchange reserves at a record pace to ensure the stability of the country's national currency, the riyal. Experts believe that reducing government spending will soften the blow of the financial crisis, but will not save the budget. Riyadh will have to descend deeper and deeper into debt. The budget will continue to come under increasing pressure in the second quarter as lower oil prices are followed by production cuts. According to the outlook given by ratings agency Moody's, Riyadh will increase its debt ceiling to 30 percent of GDP, although experts are talking about much larger figures.

One of the victims of optimizing government spending has been the Crown Prince’s brainchild — the high-tech development program Saudi Vision 2030 — dramatically weakening Mohammed bin Salman’s political position when coupled with the financial crisis. Given bin Salman’s penchant for paranoia and the mass arrests of Saudi elite, the situation in the country looks very unstable. It is likely that financial and economic problems will lead to a socio-political crisis in the Saudi Kingdom.

The mass protests held in Iraq since October last year have not quietened down, which are both against government corruption and the embezzlement of public funds by Iraqi politicians, and against the presence of American soldiers in the country. Despite the relative calm of recent weeks, this protest movement may soon turn into an outright anti-American revolt due to measures that have been taken to combat the coronavirus pandemic during the month of Ramadan in the Islamic calendar, which continues until May 23, and the “color revolution” unleashed by Washington in Iraq may therefore backfire on its initiators, which would mark a new milestone in revolutionary achievements. The situation in Iraq could also be exacerbated by the serious implications the oil price war declared by Riyadh would have for this country, and the serious financial losses incurred as a result, given that the flow of hard currency into Iraq is almost entirely dependent on oil.

With the world’s highest youth unemployment rate, it is becoming more and more difficult to keep young people in
the Middle East and North Africa region (MENA) busy and out of anti-government protests while supporting the bloated public sector in these countries. Indeed, it remains to be seen whether Iraq and other countries in the region will be able to pay civil servants their salaries in May.

It is a well-known fact that the COVID-19 pandemic led to a public health emergency and a sharp drop in oil prices. This has really put the Middle East, where everything from salaries to subsidies depends on oil revenues, to the test. The oil price shock will not only inevitably affect oil-exporting countries, but it will also affect countries that do not produce oil, as there will be a reduction in financial assistance transferred between different countries and a reduction in remittances sent home by migrant workers. This will further deflate the financial cushion in the budgets of these countries, and may serve as an added factor, contributing to the growth of social tension and protest movements in the region.

A report recently published by the World Bank has shown that the number of people in the region living in close proximity to armed conflict has increased from 6% in 2007 to almost 20% in 2017. This is much higher than the global average of 3%, and also affects the growth of political instability and the number of people in the region who are living in poverty joining various different military and terrorist groups that promise to help the poor with financial aid and food who have been devastated by economic crisis.

The political order that the region was left with after World War II reached the point of collapse by the end of 2019. The United States was no longer the sole arbiter in Middle Eastern affairs, which was partially due to the US becoming less dependent on oil imports. Russia, China, the European Union, and a number of other economically developed world powers have shown a growing willingness to mediate in regional affairs, but none of them have the desire nor the resources to fill the space left by America.

Given these circumstances, it needs to be acknowledged that the Arab countries currently engaging in conflict are waging a war of attrition that has no winners, only shared losses for everyone. The pandemic has exposed regional fault lines, and Arab leaders must now acknowledge that unless coordinated action is taken, new conflicts are going to break out and there will be even greater instability. While the world is fighting to flatten the curve of the coronavirus outbreak, Arab countries are facing the additional challenge of flattening the curve plotting the outbreak of conflict. If they fail to do so, the future of this region will be neither healthy nor prosperous.

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