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## THE DEPENDENCE OF GULF COUNTRIES ON HYDROCARBONS EXPORT – A PERSPECTIVE OF REGIONAL SECURITY COMPLEX THEORY

### UZALEŻNIENIE PAŃSTW ZATOKI PERSKIEJ OD EKSPORTU WĘGLOWODORÓW – PERSPEKTYWA TEORII REGIONALNYCH KOMPLEKSÓW BEZPIECZEŃSTWA

#### Abstrakt

Artykuł podejmuje problematykę zależności państw subregionu Zatoki Perskiej od dochodów z eksportu węglowodorów i analizuje ją z perspektywy teorii regionalnych kompleksów bezpieczeństwa (TRKB). Hipoteza badawcza zakłada, że zależność od eksportu węglowodorów jest jednym istotnych czynników pogłębiających dylemat bezpieczeństwa w tym subregionie. Artykuł charakteryzuje główne zależności w obszarze bezpieczeństwa pomiędzy państwami Zatoki Perskiej, analizuje stopień i skutki uzależnienia poszczególnych państw od eksportu ropy naftowej i gazu ziemnego oraz przedstawia działania ich rządy, mające na celu uniknięcie popadnięcia w zależność kłętwy surowcowej. Wykorzystywana w artykule TRKB pozwala na ukazanie, w jaki sposób zależność od eksportu gazu i ropy naftowej podsyca regionalne konflikty, utrudnia bliższą współpracę i w ten sposób utrwała nieefektywny i zasobochłonny model gospodarki rozdzielczej, opartej na dochodach zewnętrznych.

**Słowa kluczowe:** TRKB, Zatoka Perska, eksport węglowodorów, zależność, dylemat bezpieczeństwa

#### Introduction

The aim of the article is to investigate the problem of dependence of the Gulf countries on hydrocarbon export in the perspective of the regional security complex theory (RSCT). The assumed research

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hypothesis is structured as follows: the dependence on hydrocarbons export is one of the important factors that deepen the security dilemma in the Gulf. The article starts with delineating the features of the Gulf subregion, which will be followed by the analysis of the degree and effects of dependence on hydrocarbons export for the region's states. Some of them, aware of the problem caused by such a dependence have undertaken attempts to escape the pitfall of resource curse with varying success. The RSCT perspective will be used consistently throughout the article to show how the reliance on gas and oil exports exacerbates regional conflicts, prevents closer cooperation and thus petrifies the inefficient and resource costly model of the distributive economy based on the external rent.

### **Regional security subcomplex of the Gulf**

In the regional security complex theory (RSCT) the Gulf is one of three subcomplexes of the Middle Eastern regional security complex. The Middle Eastern regional security complex is described as a perennial conflict formation, in which the autonomous regional level of security is intertwined with strong external influences from the global level (Buzan, Waever 2003: 187). The borders of the region include all Arab states plus Iran and Israel. Afghanistan and Turkey play the role of isolators between the Middle East and the regions of South Asia and Europe respectively. Middle Eastern RSC is then divided into three subcomplexes: Maghreb, which includes the Arab states of North Africa, such as Algeria, Libya, Morocco and Tunisia; the Levant, which includes Egypt, Israel along with the Occupied Palestinian Territories, Jordan, Lebanon and Syria; Persian Gulf, which consists of Iran, Iraq, and all countries lying on the Arabian Peninsula, namely Bahrain, Yemen, Qatar, Kuwait, Oman, Saudi Arabia and United Arab Emirates (Buzan, Waever 2003: 187–191).

For decades the Gulf subcomplex has been "centered on a triangular rivalry among Iran, Iraq, and the Gulf Arab states led by Saudi Arabia" (Buzan, Waever 2003: 191). After 2003, however, when Iraq fell into chaos after the overthrow of Saddam Hussein and ceased to play a role of regional power, the subcomplex is centered on a two-sided rivalry between Iran and Saudi Arabia. In addition to this, there is a number of peripheral rivalries: inside Yemen (which became a proxy conflict of the Saudi-Iranian rivalry) and more recently between Qatar and Saudi Arabia. The Saudi-Iranian rivalry stemmed from both the traditional patterns of amity and enmity as well as from more recent political and economic interest and ambitions. Both parties to claim leadership of opposing sides

in the traditional Middle Eastern rivalries: Sunni-Shiite and Arab-Persian. In the XXI century, this sectarianism has been consequently securitized by both sides, becoming a defining regional cleavage. As Saudi Arabia and Iran are the most powerful countries located on the Gulf, they naturally compete with each other for influence in other states of the subregion and for control over the Persian Gulf itself and sea transport routes running there. Saudi Arabia has gained a much stronger position in the smaller states of the subregion: Bahrain, Kuwait, Oman, and the UAE, while Iran consistently strengthens its influence in Iraq and recently also in Qatar. The Saudi-Iranian rivalry is also partially a result of "a diversionary tactic of domestically vulnerable Gulf monarchies to divert attention away from their democratic and economic shortcomings" (Hanau Santini R. 2017: 103). The same can be said about Iranian authorities, which securitize the external relations of the country in an attempt to divert the attention of their own society from unresolved internal problems.

Iran's actions are of course a certain objective threat to Saudi Arabia's national security, especially in the context of supporting and inciting local Shi'ite communities and threats to block shipping routes in the waters of the Persian Gulf. However, it is hard to imagine that Iran could pose an existential threat to Saudi Arabia, especially if we take into account the security guarantees that the United States give to the government in Riyadh. The scale of securitization of threats from Iran and the Shiite community allows even to talk about the anti-Shiite paranoia of the authorities in Riyadh, bolstered to a large extent by the Wahhabi religious-political doctrine. It takes the form of fear of tightening around Saudi Arabia, the "Shiite ring", which would surround it from the south (Yemeni Zaidis), the east (Iran and the Shiite minority in the east of Saudi Arabia) and the north (Iraqi Shiites and Alawites in Syria) (Shihabi 2018, Coogle 2017).

### **The degree and effects of dependence on hydrocarbons export**

For decades of oil and gas extraction and export, the economies of the Gulf countries have become deeply dependent on this source of income. This is perfectly illustrated by the percentage of fiscal revenues, which in individual countries come from the hydrocarbons export. Between 2011 and 2014 it was over 90% in Iraq, approx. 80% in Saudi Arabia and Kuwait, 70% in Bahrain, Qatar, and Yemen, 50% in Iran,

45% in Oman and 40% in UAE (Economic Diversification..., 2016: 8; US Energy Information Administration). Since the oil crisis in early 1970, the Gulf countries used the rising oil and gas export revenues to develop the model distributive economy. Using their privileged financial situation, these countries imported technologies, knowledge, and labor, developing not through their own invention or innovation but through imitation and learning (Hvidt 2015: 24-25). This model, however, turned out to be problematic, causing the enormous dependence on the export of energy resources on the one hand and on the import of knowledge and technology on the other. The distributive economy was also unable to create a sufficient number of jobs for the local population in non-oil sectors or to meet the other needs of citizens of the Gulf states. The Gulf countries have failed in ensuring an equitable distribution of income and government expenditures were often wasteful (Askari and Arfaa 2007: 177–202).

The economy of Saudi Arabia, the biggest in the region, is significantly dependent on hydrocarbons export. Oil, gas and oil products represent ca. 80% of fiscal revenues and 90% of total export revenues, as well as account for 45% of the country's GDP. Saudi Arabia has the second largest oil resources in the world, estimated at ca. 266 billion barrels and in 2016 produced ca. 10,5 million barrels of oil per day (*Saudi Arabia Facts...*). The economy of Saudi Arabia, giving employment to over 10 million foreigners (Saudi Arabia, *CIA Factbook*), is also struggling with the problem of high unemployment among its own citizens, especially poorly educated young Saudis. This supposed to be changed by the complex program of socio-economic reforms, Vision 2030, announced in April 2016 (Vision 2030). It is still too early to prejudge the chances of this program's success, however, it seems that the economic problems of Saudi Arabia are to a large extent structural. They are partly caused by the cultural limitations of the Saudis themselves, resulting from their Bedouin-tribal traditions, and partly by the government's policy of social distribution, which discourages young citizens from making efforts to increase their knowledge or improve their skills to become competitive on the labor market. Obviously, the purely economic factor, that is replacing local workers with much cheaper employees from abroad, also plays a huge role here (Sons 2018: 125-143; El-Katiri 2016).

Iran, the second-biggest economy among the Gulf countries, in addition to oil and gas production (proven crude oil reserves of 157,200 million barrels and proven natural gas reserves of 33,721.2 billion cu. m.) has also a fairly well-developed agriculture, industry, and service

sector. The country struggles, however, with numerous economic problems and its own limitations, which significantly hinder its economic development. These include international economic sanctions, largely abolished in January 2016 as a result of the implementation of the JCPOA nuclear deal, but partially restored in May 2018 after the US president, Donald Trump decided to withdraw the US from the agreement (*The JCPOA Timeline...*). No less important are also the internal factors, such as huge state interference in the economy, ubiquitous corruption, inflation, high unemployment, price control, subsidizing unprofitable projects and weak banking system (Eltejaei 2015; Jalilvand D. R. 2018: 95-105).

The war-shattered economy of Iraq is particularly heavily dependent on the revenues from oil export. Its proven crude oil reserves of 148,766 million barrels represent over 90% of the country's fiscal revenues and almost 100% of the value of its exports. The Iraqi economy has been hit hard by recent conflict with self-proclaimed Iraq and Levant State (ISIS), ongoing disputes with the authorities of the Iraqi Kurdistan Autonomous Region and numerous pathologies of political and economic life, such as bad governance, endemic corruption, nepotism, mismanagement, etc. (Al-Khatteeb 2018: 106-124).

The United Arab Emirates, unlike most other Gulf countries, achieved considerable success in diversifying their economy. This was possible mainly due to investments in infrastructure, promotion of the market economy and private enterprise as well as incentives for foreign investors from non-oil sectors. The main problems of the Emirates' economies are still significant dependence on oil inflows, huge dependence on the foreign labor force and growing inflationary pressure (El-Katiri 2018: 82-94). The Qatari authorities followed the same path and although sales of crude oil and natural gas continue to be the main sources of income, the country has also made significant investments in non-energy sectors, in particular processing, construction, and financial services. The attempts to diversify the Kuwaiti economy have been less successful. The authorities were not able to stimulate the private sector, nor to create a good climate for foreign investment in non-oil-producing sectors. The reserves of this resource in Kuwait are huge and reach 101,500 million barrels (6% of global reserves), but also account for 80% of budget revenues, 90% of total exports and half of the country's GDP (*Kuwait facts and figures*).

Oil resources in Oman are slowly depleting and the country must use more and more advanced (and therefore more expensive) mining techniques to maintain its production level. Sultanate authorities have

adopted an ambitious plan to limit the oil sector's share in the country's GDP from 46% to 9% by 2020 through investments in tourism and gas-based industries, but the success of this plan seems unlikely. The economic situation of Bahrain is even worse, as the excessively large social expenditures and employment in the public sector have exceeded the country's financial capabilities for a long time. The own oil resources of this island kingdom began to run out already in 1970. and now it can supply its own refineries with crude oil and export oil products only thanks to Saudi Arabia agreeing to make additional shares available to them in their joint Abu Saafa deposit (Cordesman, al-Rodhan 2007: 65). In April 2018 the Bahraini authorities have announced the discovery of huge oil and gas deposits that may contain up to 80 billion barrels of oil and 390 billion cu. m. of natural gas. The oil and gas resources are, however, held in source-rock formations (shale deposits) and it remains unknown how much of it is at all recoverable (Noel 2018). Any attempts to diversify the Bahraini economy did not bring the desired results so far. Additionally, both Oman and Bahrain, for a long time have had problems balancing their budgets, so at the moment they already have a high public debt and no significant financial reserves (El-Katiri 2018: 82-94). Yemen, the poorest country in the Arabian Peninsula, has much fewer oil reserves than other countries in the region. Despite this, revenues from its exports still represent 1/4 of its GDP and over 65% of budget revenues. At least that was so until the overthrow of President Salah and the outbreak of the civil war that caused the country's further economic downturn. In the face of ongoing conflict, the perspectives of the Yemeni economy look very bad and the situation of the majority of the population of the country is dramatic (Feierstein 2018).

The sharp drop in oil prices recorded since 2014 has seriously affected the economies of the Persian Gulf countries. To balance their budgets for the years coming many of them had to use their foreign currency reserves, issue bonds and cut selected expenses. In the second quarter of 2016, crude oil prices bounced back from their record low 26 USD per barrel in February 2016 and began to grow, reaching 80 USD per barrel in mid-May 2018 (Geiger 2018). The fall in oil prices since 2014 have been caused by several factors: smaller demand due to the generally poor global economic situation, increasing efficiency of the industry and growing substitution of oil by other energy sources; prolonged lack of agreement among producers to reduce extraction; growing production of shale oil in the USA (*Why the Oil Price is Falling*). Furthermore, an agreement on the Iranian nuclear program in July 2015 (JCPOA) and lifting the economic sanctions imposed earlier,

resulted in increased crude oil export from that country. In 2016, the International Energy Agency (IEA) believed that the drop in the price of oil is long-term and will not stabilize at a level close to 80 USD per barrel at least until 2020 (*World Energy Outlook*).

### **In the search for alternative solutions**

The crisis associated with the fall in oil prices in the years 2014-2017 shows the fragility of an adopted economic model and raises the question of how to deal with this type of sudden drop in income. If the Gulf countries decide to cut subsidies, investment expenditures and other government programs, it will certainly have a negative impact on the social mood and internal stability of these countries. Societies accustomed to receiving numerous goods and services for free or at very preferential prices will not favor the power that takes them away from them. An attempt to strengthen the income side of the budget, for example by raising (and in some countries introducing) taxes, would certainly provoke similar, angry responses from the public. Meanwhile, the break-even oil prices (oil prices necessary to balance the budget, without limiting public spending) in 2016 were: 106 USD per barrel for Bahrain, 97 for Saudi Arabia, 89 for Oman, 61 for UAE, 58 for Iran, 50 for Qatar, 47 for Iraq, and 43 for Kuwait (*Oct 2017 MCD REO...*).

The steps taken by the leaders of the Gulf states in 2014 and 2015 to reduce the budget deficits, shown they are aware of this problem. In Saudi Arabia, in 2015 the budget deficit amounted to around 20% of GDP, the authorities in the first place decided to finance it from foreign exchange reserves and by borrowing money. However, without reducing expenditures and finding other sources of income, even huge foreign currency reserves of Saudi Arabia would be enough to balance the budget for only several years. Therefore Saudi authorities had to plan some expenditure reductions that, according to the government, would affect mainly various investment projects that are not crucial for the state economy. The military and social expenditure supposed to remain mostly intact (*Saudi Arabia to run out...*). These plans, however, proved to be unrealistic and ultimately Saudi Arabia had to significantly reduce its military and, to some extent, social spending in 2016 (*The Military Balance 2017: 401*).

Even more difficult was the situation of Bahrain, which in 2015 recorded a budget deficit of USD 4 billion, which accounted for around 13% of its GDP. Because the kingdom did not have any significant foreign currency reserves and its bonds had a "junk" rating in order to save public finances, the Bahraini authorities had to cut down on some

social expenses and benefits, including subsidies for water, electricity, fuels, meat and poultry (*Bahrain, Oman cut...*). The situation of Oman was equally difficult because its budget deficit in 2015 amounted to USD 6.5 billion, which accounted for 11% of its GDP. Just like Bahrain, Oman had limited possibilities to finance the deficit from reserves or loans, so the sultanate's authorities tried to cut social expenditures, which met with strong resistance from society (Al Kharusi, Stella Ada 2018: 1141–1157).

In Iraq, low oil prices caused problems with balancing the budget and significantly hinder the reconstruction of the areas previously occupied by ISIS and destroyed as a result of the fighting. In Yemen, low oil prices combined with the ongoing civil war led to an uncontrolled rise in inflation and a significant reduction in food and fuel imports, which caused a humanitarian crisis in many regions of the country. Low oil prices were also a problem for Iran, which, after the abolition of economic sanctions in early 2016, planned to use higher profits from the sale of oil and gas to rebuild its economy and increase investment. Iran, however, according to its officials, prefers a "reasonable" oil price, which should oscillate around 60–70 USD per barrel (*Iran oil min says...*).

Other Gulf states are in a relatively better situation. The United Arab Emirates have taken some steps to reduce social spending, but the country anyway has sufficiently large foreign currency reserves to survive for decades of low oil prices. Similarly, Qatar and Kuwait, which, although affected by declines in oil prices, have managed to accumulate sufficiently large financial reserves over the past decades to balance their budgets in the long run. It is estimated that Kuwait and Qatar could survive for 25 years with oil prices below 50 USD a barrel, and UAE even 30 years (*Saudi Arabia to run out...*).

In the face of unstable revenues from the export of hydrocarbons, one of the areas of the Gulf states' public spending, which is military expenditure, becomes particularly important. Military expenditures represent a significant burden on the budgets of most Gulf countries, accounting for a large share of government spending (in 2017 it was 11,8% in Bahrain, 15,8% in Iran, 9,4% in Iraq, 11,3% in Kuwait, 26,3% in Oman, 30,4% in Saudi Arabia (SIPRI Military Expenditure Database 2018) <sup>1</sup>). A possible reduction of these expenditures would not be associated with such serious social dissatisfaction as limiting social spending, but countries of the Gulf are not very eager to limit these expenses. This is mainly due to the fact that the authorities perceive the reinforcement and expansion of the armed forces as a response to the

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<sup>1</sup> Reliable, recent data on Qatar, UAE and Yemen are unavailable, but they are likely high-spending countries (SIPRI Military Expenditure Database 2018).



inevitable, immediate and deadly threat to their existence. Other threats, such as the public finances crisis or public dissatisfaction, are perceived as less dangerous and not immediate or fatal (Jarzabek 2016).

### **Deepening rivalry**

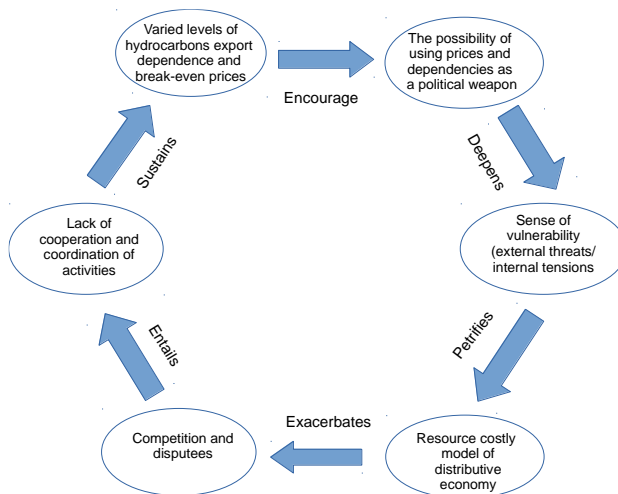
Theoretically, all the Gulf states are in a similar situation, with their high or very high level of dependence on hydrocarbon exports. This supposed to facilitate their cooperation as all of them should have an interest in maintaining relatively high oil and natural gas prices. There is, however, a number of other factors that influence their mutual relations, which include durable patterns of amity and enmity as well as numerous current political issues. In many cases, they overshadow the purely economic interests of the states. As a result, the countries are willing to sacrifice their financial profits in exchange for achieving political goals and a chance to gain a strategic advantage.

Even among the GCC member states, the chances for a higher level of integration and closer cooperation are hindered by sovereignty concerns and internal rivalries. It seemed probable that the organization bound together by a shared interest of its members on the one hand but torn by discords and divisions on the other will function in the same way over the next decades (Martini et al. 2016: 5-58). The crisis in the relations between Qatar and Saudi Arabia, which escalated in June 2017, shows that these calculations may already be out of date. Saudi Arabia attempts to pressure the smaller GCC states to adopt its strict anti-Iranian position. While Bahrain and UAE stay in line with Saudi position, Kuwait and Oman remained hesitant and "see their future interests best served by hedging their bets on both the kingdom and the Islamic Republic" (Cafiero and Karasik 2017). For some time the developing contacts between Oman and Kuwait with Iran caused the Saudi dissatisfaction, but Qatari's explicit opposition to demands of cessation of cooperation with Tehran provoked outrage. For now, it is manifested in the form of political and economic sanctions and attempts to isolate Qatar on the regional level, but a further escalation of the dispute may lead to a situation in which Saudi Arabia and the UAE will be willing to use force against the disobedient emirate.

Meanwhile, as experience from the past indicates, in favorable conditions the Gulf states are both willing and able to peacefully resolve conflicts and de-escalate tensions. What is more, the patterns of amity and enmity do not necessarily play a decisive role in the conflict resolution between the Gulf states, as in the past both naturally friendly

and naturally unfriendly states were able to settle disputes. For example, the dispute between Saudi Arabia and Kuwait on oil deposits in the so-called neutral zone between the two countries, although it has been going on since 1922, has never led to a serious political conflict. Both sides have an interest in oil production from two shared neutral zone oil fields, the offshore Khafji field, and the onshore Wafra field, and despite the temporary difficulties, they managed to divide the deposits (Elass 2016). Qatar was able to settle its border disputes with both the brotherly Arab states, Saudi Arabia and Bahrain in 2001 (*Saudi and Qatar End...*) as well as with Iran, peacefully dividing their respective continental shelves in the Gulf in 1970 (*Limits in the Seas...*). No territorial disputes exist between two major rivaling powers of the Gulf, Iran and Saudi Arabia.

Thus the perennial tensions between the countries of the Gulf are not so much the result of objectively conflicting interests but rather the result of a specific perception of threats. Saudi crusade against Iran results from their overwhelming fear of being encircled by Shiite forces favoring Iran. Recent events, especially seizure of power by Shiites in Iraq and the rebellion of Houthis in Yemen, in conjunction with the activity of Iranian intelligence services among Shiites living in the eastern part of the Arabian peninsula, are securitized by Saudi Arabia as an immediate, existential threat. Similarly, Iran perceives activities of Saudi Arabia and UAE, particularly their enormous military expenditures, attempts to isolate Iran regionally and internationally and military actions against Iran's allies in the region as an existential threat to its own existence. This further deepens the security dilemma and accelerates the regional arms race.



**Figure 1.** How hydrocarbons export dependence deepens security dilemma in the Gulf

In these circumstances, the dependence of the subregion's states on hydrocarbons export becomes a vulnerability that deepens their own sense of danger and contributes to further increasing mutual distrust. The crude oil and natural gas production quantities and desired price are based not only on the economic calculation but become politicized and in certain situations also securitized. Various levels of dependence on hydrocarbons export and break-even prices different for each country allow using this leverage. This petrifies their economic models of distributive economies and hinders efforts to become independent of hydrocarbons exports. The capital-surplus oil and gas exporters (GCC member states) use their sizeable rents on generous welfare high government consumption, which stabilized their autocracies but also generated labor market distortions, patronage-driven private sectors, and a high dependence on resource rents. The capital-deficient economies (with relatively modest resource rents per capita like Iran and Iraq) tried but largely failed to deploy rent to create competitive industrial strength. They also created systematic welfare entitlements, which combined with manipulation of the economy led to rent-seeking, unproductive investment, weak private sectors and greater resistance to reform (Malik 2017: 45).

## **Conclusions**

In the Gulf subregion, common economic interests do not lead to a transformation of the subcomplex into a security regime, not to mention the possibility of developing there a security community. On the contrary, the export of hydrocarbons becomes yet another factor contributing to increasing mutual distrust and rising tensions. Region's states are reluctant to undertake any steps to reduce the security dilemma and mitigate the tensions among them. This reluctance is further increased by the influence of external forces e.g. the support and security guarantees of the United States to the GCC member states and Russian support to Iran. With the powerful protector behind them, the states are more willing to take offensive actions and risky decisions, thus approaching or balancing on the threshold of war.

Not only the objective conflicting interests but also the specific perception of own strengths and vulnerabilities on both the regional and state level petrifies the inefficient model of the distributive economy in the Gulf countries. This exacerbates competition and disputes as the states perceive each other as rivals and enemies rather than friends. It makes cooperation between countries, between which there are persistent patterns of enmity impossible, and where there are traditional patterns of amity, difficult. This inability to cooperate and coordinate sustains diversification of interests, which in turn encourages the political usage of economic tools.

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