

## INTERNATIONAL ECONOMIC RELATIONS

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### ENERGY STRATEGY OF RUSSIA AND THE PERSIAN GULF STATES

Lili Kharchilava<sup>1</sup>, Doctor of International relations;  
Kakha Petriashvili<sup>2</sup>

<sup>1</sup> Georgian Technical University: Tbilisi, Georgia

<sup>2</sup> Georgian Technical University, Tbilisi, Georgia

**Corresponding author:** Lili Kharchilava; **Email:** l.kharchilava@gtu.ge

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#### Abstract

The ongoing events unfolding in the world today, notably the conflicts in Ukraine and the Middle East, serve as further evidence that a new world order is gradually emerging, wherein major players in international relations strive to secure or uphold the most advantageous positions. Energy resources will undoubtedly hold a prominent position in this evolving landscape.

After Russia's annexation of Crimea in 2014, followed by the unleash of bloody conflicts in eastern Ukraine and direct military intervention in Ukraine with regular army forces in 2022, the West responded with severe economic sanctions against Russia (totaling 13 packages). Consequently, Russia's engagement in the Middle East energy market has become increasingly significant. Even during the Soviet Union era, Russia maintained close economic ties with the Middle East. However, following the conclusion of the "Cold War" and the collapse of the Soviet Union, the intensity of these relations waned, only to be revitalized upon Vladimir Putin assuming leadership of the Russian government. As is widely recognized, energy serves as a powerful lever of Russia's foreign policy. Presently, Russia extensively collaborates with the states of the Persian Gulf in the energy sector, particularly in the domains of nuclear energy, gas, and oil, which remain highly relevant. State-owned Russian companies such as "Gazprom" and "Rosatom" serve as key vehicles for advancing Russia's energy interests, encompassing consumer markets, gas and oil fields, and critical components of nuclear energy. In recent times, Russia has fostered trade and economic ties with Saudi Arabia and the United Arab Emirates. Emphasis is placed on investment issues and the potential of the North-South transport corridor, with primary attention directed towards energy matters.

Russia's leading strategy is geared towards demonstrating that it is not isolated but rather engaged in a confrontation solely with the Euro-Atlantic space. The Middle East serves as one of the most prominent examples to showcase this strategy. Another key aspect of the intensified cooperation between Russia and the Persian Gulf countries during this period was aimed at stabilizing the oil market and fostering broader investments geared towards reaching agreements on prices for energy carriers.

**Keywords:** Persian Gulf, energy, politics, economics, geopolitics, geostrategy, Russia, natural gas, oil, crisis, nuclear energy, sanctions.

**JEL:** Q48, E69, N75.

## Introduction

Russia has always maintained close relations with the Middle East region, owing to various factors. One of the primary reasons is the region's abundant natural resources, coupled with its favorable geopolitical location. Even during the existence of the Soviet Union, Russia fostered ties with the Persian Gulf states and wielded political influence over many of them. Following the conclusion of the "Cold War" and the dissolution of the Soviet Union, relations between Russia and the Persian Gulf states initially appeared to weaken. However, over time, it became evident that Russia held its own interests in the Persian Gulf. In the modern era, Russia, along with other former Soviet republics, is integrated into the global economy to varying extents. As a significant power, Russia inevitably cultivates multifaceted relations with Persian Gulf countries, with energy cooperation often occupying a prominent position in these interactions.

## Main part

During the Cold War, the economic focus of the Soviet Union primarily revolved around trade with the states of the "socialist camp" and the "Third World", which were to varying degrees dependent on Moscow. In the modern era, Russia, along with other former Soviet republics, has become significantly more integrated into the global economy. This was the case until the Russian invasion of Ukraine occurred. Governments within the Commonwealth of Independent States (CIS) are actively renewing trade and investment ties with all pertinent international partners and participating in numerous international economic institutions. Several CIS states have become members of the World Trade Organization, entered into multilateral agreements governing trade and investment in specific sectors of their economies, and fostered strong bilateral economic relationships with various key partners. Russia's foreign policy increasingly prioritizes economic objectives, including supporting national corporations in expanding market share and pursuing new business opportunities. Furthermore, Russia and nearly all CIS countries have largely overcome the economic crises of the 1990s, experiencing impressive economic growth for nearly a decade.

Consequently, Russia and other CIS countries are increasingly perceived as appealing emerging markets for investment, particularly given their vast potential in supplying abundant raw materials to international markets. Moreover, Russia, along with other CIS countries and the Arab states of the Persian Gulf, stands as one of the principal regions globally for the production of hydrocarbon raw materials. In recent years, cooperation in the energy sector between Russia and the countries of the Cooperation Council of the Arab States of the Persian Gulf has markedly expanded.

There are two primary reasons underlying the closer energy ties between Saudi Arabia and Russia. Firstly, the surge in oil prices has resulted in unprecedented revenues for both states, thereby facilitating the initiation of several joint Russian-Saudi energy projects. One notable example is the formation of the "Luxar" joint venture between "Saudi Aramco" and Russia's "Lukoil," established to develop a concession for the exploration and processing of hydrocarbons in the Rub al-Hari desert of Saudi Arabia (Terterov, 2006, p. 326). Additionally, Russian and Saudi partners have explored the potential for joint investments in new oil refining projects in third countries.

Trade, economic, and energy cooperation with Saudi Arabia holds particular significance for Russia, especially in light of the economic sanctions imposed by the West, totaling 13 packages. Consequently, Russia is exerting considerable effort to pivot its economic policy beyond the Euro-Atlantic sphere, with the Middle East assuming a special importance. This rationale prompted Russian President Vladimir Putin's visit to Saudi Arabia on December 6, 2023, where he received a warm welcome and engaged in discussions concerning economic matters and energy cooperation. During his visit, President Putin held talks with Mohammed bin Salman Al Saud, the Chairman of the Saudi Arabian Council of Ministers. Their discussions encompassed trade, economic, and investment issues, alongside considerations regarding the North-South transport corridor. Notably, special attention was dedicated to matters pertaining to energy (TACC, 2023).

Another area of focus for enhancing cooperation between Russia and the Persian Gulf countries at the time was the stabilization of the oil market, particularly within the framework of broader initiatives aimed at reaching agreements on prices for energy carriers.

Steps will be taken to facilitate closer joint efforts under the auspices of international energy organizations, wherein the interests of producers and consumers can be duly considered and balanced. For instance, Russia advocates for enhanced collaboration with Qatar, alongside gas producers such as Iran, Libya, and Algeria, to coordinate natural gas prices. Russia utilizes the Gas Exporting Countries Forum (GECF) as a platform for discussing natural gas prices with other gas-producing nations. This has sparked discussions regarding whether Russia is attempting to lead a cartel of gas-producing countries. Notably, during this period, Russia extended an invitation to the Gulf states and other OPEC members to join the Energy Charter Treaty – an agreement aimed at regulating trade and investment in the energy sector. Russia perceives this treaty as being balanced in favor of consumer countries' interests (Statements Made by the Russian Delegation, 2008).

Clearly, within the framework of the new geopolitical landscape that succeeded the Cold War era, the participants of this new alliance have the opportunity to engage in closer cooperation across various interconnected areas. These international actors, which include post-Soviet Russia and the oil-rich Gulf Cooperation Council bloc, are beginning to recognize the advantages of such collaboration. These benefits encompass increased trade and investment volumes, coordinated pricing of energy carriers, and cooperation in combating international terrorism, among others. Moreover, their newfound partnerships are bolstered by the changing geopolitical realities, which have largely shifted in their favor. Here are several key trends that underscore the advancement of geopolitical forces in contemporary international relations.

Firstly, there has been nearly a decade of sluggish GDP (Gross Domestic Product) growth rates in countries outside the Organization for Economic Cooperation and Development (OECD). In Russia, following the financial crisis of August 1998, GDP experienced an average annual growth rate of 7% (CIA World Factbook, 2007). Similarly, many other states were advancing at rates that were no less impressive than Russia's.

Alongside the growth of GDP in the CIS countries, the economies of the Cooperation Council of the Arab States of the Persian Gulf also experienced impressive growth. Despite traditionally being net exporters of capital, the Gulf states found themselves with an increasing volume of capital due to their economies' inability to fully absorb the earnings from exports. Consequently, a greater portion of capital remained within the region. There was a clear preference for domestic and regional investment, and the governments of the Arab countries of the Gulf endorsed a more cautious approach to spending funds compared to previous economic activities (CIA World Factbook, 2007).

Undoubtedly, the high price of oil served as the primary factor contributing to the improvement of economic indicators in countries outside the Organization for Economic Cooperation and Development (OECD), including the CIS states and the Persian Gulf countries. Russia, for instance, amassed hundreds of billions of dollars in revenue over the previous decade. In both Russia and the Persian Gulf region, a significant portion of the revenue generated by energy producers has been retained by states whose governments opted to establish special funds to manage stable high oil revenues.

Another significant trend highlighting the geopolitical shift in favor of new entrants into the international arena is the recovery of oil production in Russia following the decline experienced in the 1990s, alongside the establishment of additional production capacity. Concurrently, Russia has ascended to the position of the primary supplier of energy carriers to the European Union, furnishing 25% of the natural gas consumed by its member countries (Green Paper, 2006). Despite the imposition of sanctions, Europe has notably decreased its energy reliance on Russia, although complete emancipation from it has not yet been achieved.

Energy serves as the most pivotal lever of Russia's foreign policy. The nation harbors substantial economic and business interests in the energy sector of the Middle East, spanning from nuclear energy to oil and gas.

Its state-owned companies, such as Gazprom and Rosatom, underpin Russia's significant energy interests in the Middle East, encompassing major consumer markets, oil and gas fields, and nuclear power infrastructure customers in Iran, Iraq, Turkey, Iraqi Kurdistan, and the Eastern Mediterranean. Notably, Rosatom has notably escalated its activities in the Middle East in recent years by constructing reactors in Iran, Egypt, Jordan, and Turkey. Furthermore, it established a regional office in Dubai, aiming to capitalize on the plans of the United Arab Emirates and Saudi Arabia to expand their nuclear power potential (Khaleej Times, 2016). Certain trends in global energy markets, coupled with Russia's heightened reliance on oil revenues due to economic downturn and Western sanctions, have exerted additional pressure on Moscow, compelling it to seek advantages in Middle Eastern energy markets.

### Conclusion

In conclusion, Russia maintains multifaceted relations with the states of the Persian Gulf, with energy cooperation standing out as particularly crucial. The Persian Gulf states hold significant importance for Russia, especially in the realm of energy. Following Russia's annexation of Crimea in 2014 and subsequent direct intervention in Ukraine in 2022, ongoing conflict and severe economic sanctions imposed by the West have underscored the importance of trade and economic cooperation for Russia on a global scale.

Energy remains a cornerstone of Russia's foreign policy, given its extensive economic and business interests in the energy sector of the Middle East, spanning nuclear energy, oil, and gas. Through its state-owned enterprises, such as Gazprom and Rosatom, Russia actively supports its energy interests across various regions worldwide, with a notable focus on the states of the Persian Gulf. Russia maintains multilateral relations with countries including Iran, Saudi Arabia, Jordan, the United Arab Emirates, among others, emphasizing the significance of energy cooperation in its diplomatic endeavors.

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