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With financial markets unnerved by an unpredictable Chinese slowdown, and a Chinese economy beset by bubbles liable to burst, we should not forget the critical part that the Middle East and North Africa region has yet to play. If rising tensions in the region push oil prices upward, China - the world's largest oil importer - is bound to be affected. High oil prices could tip the Chinese economy over the edge.

China is not the only vulnerable country. The ongoing Eurozone recovery masks underlying weaknesses, and European countries import most of their energy. An oil price surge could be very painful. The same applies to other major energy importers such as India and Japan.

Blind spot?

Most economic analyses hint at low oil prices for years to come. These studies tend to ignore geopolitics. The oil price slump itself could drive up prices in the long term by creating huge problems for various regimes, which could easily result in instability and price rises. According to the *Financial Times*, "as examples including the Iranian revolution of 1979 and the Venezuelan election of 1998 show, there is no market that can translate financial volatility into political instability as effectively as oil."

If civil wars across the Middle East and North Africa spiral further out of control, oil prices could soar again. War itself tends to undermine oil production. Moreover, terrorists often use conflict areas to recruit and train members and to regroup before launching new attacks. In addition, civil wars can spawn new conflicts in and between neighbouring countries.

Raging wars

Wars are raging in Yemen, Libya, Iraq, and Syria. In none of these conflicts is there hope that resolution could be imminent. Libya has broken apart in two de-facto states. It remains to be seen whether either of the two camps effectively represents all of the factions and militias under its umbrella. So even if agreement is reached, the fighting may well continue. Moreover, the Islamic State has made inroads into Libya.

An Arab coalition led by Saudi Arabia invaded Yemen after Houthi rebels backed by ousted President Ali Abdullah Saleh advanced toward the south. Initially, the coalition seemed to make little headway, but now they have gained the upper hand. However, the more the Houthis retreat into their own rugged terrain, the harder it will be for the coalition to defeat them. In any case, its recent victories have bolstered the confidence of the Saudi-backed alliance, which could easily overplay its hand. Some say that Iran is supporting the Houthi rebels. When the nuclear deal with Iran is approved, Tehran will have more money at its disposal to help the Houthis, should it want to. Also relevant is that al-Qaeda and affiliates control large parts of Yemen. Therefore, any hope of stabilization may prove illusion in the near future.

Intertwined conflicts

The two most important and intertwined civil wars are those in Iraq and Syria. In Syria, any compromise seems doomed. Bashar al Assad's regime is hated by many; all the more so as it only represents a minority of the population. The opposition is deeply divided, and there are few examples in Syria's history of agreements that have managed to bridge the sectarian gap. In addition, the Islamic State is unlikely to water down its wine in the short to medium term, whereas countries such as Russia, Turkey, and Iran play unsteady roles. The outside world is almost exclusively focused on defeating ISIS, and the deeper developments that stoke chaos and extremism are receiving scant attention.

ISIS, of course, also controls large parts of Iraq. There has been fighting around important oil production facilities. This did not stop Iraq from achieving record oil production in July, but because oil prices are low, the government is still in financial trouble, which makes it harder to exert authority over the different factions. And once again, oil disputes are fueling tensions between the Kurds and Baghdad.

Contagious

The region's civil wars could certainly prove infectious. Usually, the countries most susceptible to civil war are those afflicted with weak public institutions and hemmed by poor governance. Another risk factor is civil war in neighboring states, which results in large refugee inflows. It is equally ominous if the governments in question refuse to negotiate with disenfranchised groups

inside their country. These conditions prevail in quite a few countries in the region, including Lebanon, Jordan, Sudan, and Egypt.

Saudi Arabia and some oil-producing Gulf states are not at ease, either. The combination of new leadership, substantial budget deficits - due to the oil price slump and to the expensive stimulus packages that are applied to keep populations quiescent - and overreach in Yemen could be a poisonous mix.

MENA in flux

Janan Ganesh wrote in *FT*: "Leadership is to politics what productivity is to economics: not quite the only thing that matters but almost." And according to the Brookings Institute's Thomas Wright, "the lesson of the 20th century is that strategic choice matters. It is what great powers do geopolitically that makes history, not how much or how fast their economies grow."

The quality of that leadership and of those choices has not been impressive in the past years across the globe, and especially not in the Middle East and North Africa. Decisions made there now have great influence, because the region is in great flux. The Kurds have grand plans, and some experts do not rule out that ISIS will eventually become an actual state. Egypt, Turkey, Iran, and Saudi Arabia are playing dangerous games, Turkish President Recep Tayyip Erdogan has attempted to create an authoritarian state, and the Iraqi prime minister has greatly delayed outreach to the country's Sunnis. Relative rookies are in charge, ruling major countries. This matters even more because the region's regimes are less certain of the United States' commitments, following the nuclear deal with Iran and Washington's ongoing efforts to pivot to Asia.

For now, the chaos and instability in the Middle East and North Africa have not fundamentally affect oil production. Acute new crises in the region may not be imminent, but it pays to keep a close eye on the area. No one wants to be caught unaware should oil prices start to spike due to old-fashioned geopolitics.

(AP photo)

