



ROSA & ROUBINI
ASSOCIATES

MACRO PICTURE

The Unravelling of the GCC Order: Security, Finance and Energy

By

Nato Balavadze



8 May 2026

Nato Balavadze

The Unravelling of the GCC Order: Security, Finance and Energy

8 May 2026

Table of Contents

	Page
Executive Summary	3
Introduction: The System Under Strain.....	4
Erosion of US Security Credibility and the Turn to Alternative Umbrellas.....	5
Currency Hedging and Financial Leverage.....	6
Internal Divergence and the Fragmentation of Gulf Unity.....	7
The Collapse of the Gulf Model.....	7
The Securitisation of Technology: Data Centres in the Battlespace.....	8

Page | 2



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 75 King William Street, London EC4N 7BE, United Kingdom.

For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

Analyst Certification: I, Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report.

Disclaimer: All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the US SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

www.rosa-roubini.com

Nato Balavadze

The Unravelling of the GCC Order: Security, Finance and Energy

8 May 2026

Executive Summary

Page | 3

Energy Security, Growth, And Asia's Energy Transition

- ✦ The Gulf's stability model, built on US security guarantees and the petrodollar system, was structurally fragile, relying more on external protection and financial integration with the US than on domestic resilience.
- ✦ The war has exposed this fragility, creating a growing contradiction: Gulf economies remain financially tied to the US, but are increasingly diversifying toward Asia, while the broader system (security, finance, and technology) begins to fragment.

Eroding US Security and Alternative Hedging

- ✦ The war has exposed the limits of US security guarantees, with depleted missile defenses and vulnerable bases undermining credibility and forcing Gulf states to reassess reliance on American protection.
- ✦ In response, Gulf states are fragmenting and hedging—diversifying partnerships, while China (via Pakistan) emerges as an alternative security channel, including a potential informal nuclear backstop.

Currency Hedging & Financial Leverage

- ✦ The UAE's swap line request and RMB oil signal reflect financial hedging as geopolitical leverage—not necessity—highlighting a shift from passive dollar dependence to active bargaining within a still dollar-dominated system.
- ✦ Financial relations are becoming explicitly politicised and transactional, as seen in UAE–Pakistan tensions, where capital flows and support are increasingly conditioned on political alignment, reinforcing broader regional fragmentation.

Gulf Fragmentation and Internal Divergence

- ✦ The UAE's exit from OPEC reflects deep structural divergence with Saudi Arabia—driven by differing fiscal needs and oil price preferences—signaling a shift toward greater national autonomy over collective discipline.
- ✦ War-related insecurity has weakened incentives for coordination, accelerating Gulf fragmentation, as states prioritise flexibility and position themselves to maximise post-war market share.

Collapse of the Gulf Model

- ✦ The Gulf's growth model is increasingly exposed to geopolitical shocks, disrupting non-oil sectors and amplifying global risks through energy, inflation, and supply chains.
- ✦ While a strong rebound is expected, it is highly conditional on restored security and trade flows, highlighting the model's core tension: solid fundamentals but rising vulnerability to external instability.

Securitised Tech: Data Centres at Risk

- ✦ The Gulf's rise as a global AI and data centre hub is increasingly undermined by geopolitical risk, as digital infrastructure becomes a direct target in conflict, exposing the limits of its "safe hub" model.
- ✦ AI infrastructure is being securitised, with investment now tied to security guarantees, political alignment, and higher costs—transforming data centres from commercial assets into strategic ones.

Key Picture: GCC Economic Outlook

	Projections	
	2026	2027
Saudi Arabia	3,10%	4,50%
UAE	3,10%	5,30%
Kuwait	-0,60%	2,80%
Bahrain	-0,50%	4,50%
Qatar	-8,60%	8,60%
Oman	3,50%	3,40%

Source: IMF WEO April 2026

Introduction: The System Under Strain

The US-Israel-Iran war has shattered the illusion of the stability in the Gulf. For decades, the critical political economists have argued that the region’s model was structurally fragile, less grounded in production, participation and institutional and economic resilience and more in external security guarantees and the projection of comfort and luxury.

It has been also clear, that his model was not only political but deeply financial. Gulf economies have long been embedded in a US-centred system: oil revenues denominated in dollars, recycled into US financial markets, and underpinned by military protection. This “petrodollar” architecture tied the region’s stability, or more frankly, region’s political status quo, to American economic and geopolitical power, reinforcing the global role of dollar, while anchoring Gulf wealth in US assets.

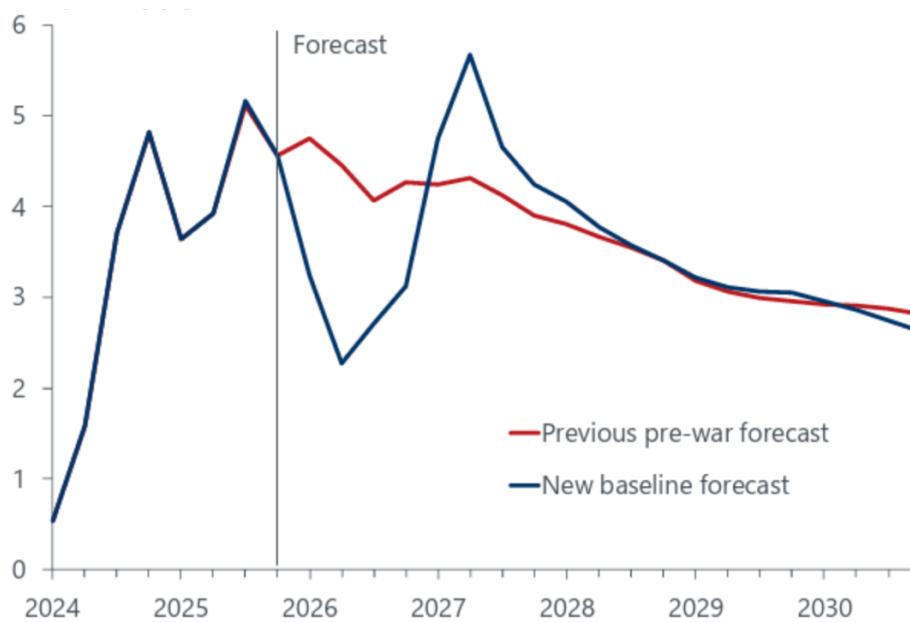
This implicit bargain formed the backbone of US global power: control over energy flows reinforced dollar dominance, while military presence across the Gulf secured both. Prior to the war, the US has maintained a military presence in the Middle East for decades, stationing between 40000 and 50000 soldiers across at least 19 sites, embedding itself as the region’s ultimate security guarantor.

The war has exposed the fragility of this arrangement. Confidence in US security guarantees is weakening, even as financial and technological interdependence deepens. Gulf states now face a growing contradiction: while their assets, currencies and investment flows remain tied to the US, their strategic horizon is increasingly shifted toward Asia. This tension is already visible in experiments with non-dollar oil trade, closer ties with China and efforts to diversify both financial and security partnerships.

The shift is not confined to security or finance. It increasingly extends into the technological sphere. The expansion of US tech giants, especially the build-out of AI infrastructure and data centres, depends on vast and reliable energy inputs. As power constraints intensify at home, the energy-rich Gulf becomes more than a market or investment partner; it becomes a potential infrastructure base for American technological power.

What is now unfolding is not a simple geopolitical shift, but a systemic transformation: the gradual unbundling of the security, financial, and technological foundations that once underpinned the Gulf order.

Figure 1: Real GDP Growth, % Quarterly y/y



Source: [Oxford Economics](#)

Erosion of US Security Credibility and the Turn to Alternative Umbrellas

Missile strikes on energy infrastructure, disruptions to shipping routes, and the vulnerability of US bases themselves have raised a fundamental question across the Gulf: what is the value of a security guarantee that does not prevent systemic disruption?

Recent evidence reinforces these concerns. [A Center for Strategic and International Studies report estimates](#) that the United States has already expended at least 45% of its Patriot interceptors, over 53% of THAAD systems, and a comparable share of Precision Strike Missiles in the Iran conflict, potentially as much as 80% of THAAD stockpiles. While inventories remain sufficient for ongoing operations, replenishment timelines stretch into years. In a high-intensity conflict with a peer adversary such as China, where munitions demand would be exponentially higher, these constraints could become binding.

This has immediate strategic implications. Pre-war stockpiles were already limited; current depletion levels expose a structural fragility in the US ability to sustain extended deterrence across multiple theatres. For Gulf states, the issue is not simply capability, but credibility. With US military infrastructure across the region rendered, at least temporarily, less effective, the American protection umbrella appears conditional, capacity-constrained, and increasingly selective. The result is not a sudden collapse of alliances, but a reassessment of their reliability.

Importantly, this reassessment does not produce a unified regional response. Instead, it generates fragmentation. Some states, most notably the UAE and Bahrain, deepen security coordination with Israel, while others, including Saudi Arabia, Qatar, and Oman, pursue more cautious and diversified strategies. What emerges is not a coherent post-American order, but a patchwork of overlapping, partial alignments.

Within this fragmented landscape, China's evolving role takes on new significance. Beijing is steadily transitioning from an economic and infrastructure partner into an emerging security actor in the Gulf. This shift is best understood not as an attempt to replace the United States, but as a response to eroding confidence in US guarantees, which is pushing regional actors toward diversification.

At the center of this transition lies Pakistan. Pakistan's strategic position, deeply embedded in China's military ecosystem while maintaining longstanding defense ties with Saudi Arabia and the UAE, allows it to function as a critical intermediary. Through Pakistan, Chinese military technology, training, and operational frameworks can be transferred and localized within Gulf security structures. More importantly, Pakistan introduces a dimension that fundamentally alters the calculus: a latent nuclear umbrella.

While never formally declared, longstanding financial and military ties between Pakistan and key Gulf states have sustained the perception that nuclear protection could, if required, be extended or informally guaranteed. In a context where US extended deterrence is perceived as less certain, this implicit option gains strategic weight.

Currency Hedging and Financial Leverage

Security fragmentation is mirrored in the financial sphere.

The United Arab Emirates has recently requested a US dollar swap line, [according to Treasury Secretary Scott Bessent](#). Traditionally presented as technical instruments to stabilise global liquidity, swap lines are increasingly taking on geopolitical meaning, raising the question of whether they are evolving into tools of financial statecraft rather than purely monetary policy. However, the notable was the warning attached to it. Emirati officials suggested that, if dollar access tightens, [the UAE could shift to using Chinese yuan for oil transactions](#), a signal bound to capture Washington's attention given the dollar's dominance in global energy trade.

While the dirham's dollar peg requires stable dollar access, current data does not indicate financial stress. The UAE holds substantial reserves, maintains a strong external position, and continues to enjoy top credit ratings, with sovereign wealth funds actively investing even amid the war. At its core, this is a political message. The UAE is signaling dissatisfaction with the costs imposed by the US-Iran war, economic damage, security risks, and lack of consultation, while reminding Washington that alternatives exist.

As Treasury officials note, swap lines are typically used to prevent disorderly market disruptions, not to support countries with ample dollar buffers. The UAE's move therefore reads as a strategic signal, highlighting both its exposure to war-related shocks and its ability to pressure Washington by invoking alternatives.

The move reflects a broader recalibration rather than rupture. The UAE is not seeking to replace the US as its primary partner, but to renegotiate the terms of that relationship. The swap line discussion, along with deepening engagement with China, serves as a tool to extract greater recognition, security guarantees, and influence over regional outcomes, particularly any future settlement with Iran.

The UAE is indicating that it is willing to use its growing integration with China's financial system as leverage. Unlike a decade ago, this threat is now credible. [RMB settlement is rising rapidly, with cross-border flows reaching 864 billion yuan in the first nine months of 2025](#). First Abu Dhabi Bank has become a regional clearing hub and [a direct participant in China's CIPS system](#), while the UAE is also advancing digital currency integration through platforms like mBridge.

While constraints on RMB usage remain, such as limited convertibility and financial depth, China has nonetheless built a viable alternative payments ecosystem. The implication is clear: Gulf partners are no longer passively reliant on the dollar system, but are beginning to use emerging financial alternatives to strengthen their bargaining power.

Beyond currency strategy, financial leverage is increasingly being deployed more directly in bilateral relationships. [The UAE's demand that Pakistan repay \\$3.5bn illustrates how economic ties are being re-politicised](#). Officially framed as a routine financial adjustment, the move reflects Abu Dhabi's frustration with Islamabad's neutrality in the Iran war and its growing alignment with Saudi Arabia.

At a deeper level, the episode underscores a broader shift: financial support is becoming explicitly conditional on political alignment. In a context where neutrality is no longer tolerated, capital flows are being used as instruments of statecraft. Pakistan's position, caught between its role as a mediator and its ties to Iran, has exposed the limits of strategic balancing.

The result is a reconfiguration of relationships. Pakistan is becoming more reliant on Saudi backing, while the UAE recalibrates its partnerships in line with its broader geopolitical priorities. More broadly, the episode highlights how regional fragmentation is extending into financial and economic ties, with alliances becoming increasingly transactional and politically contingent.

Tergence and the Fragmentation of Gulf Unity

Fragmentation is also visible within the Gulf itself. The UAE's decision to exit OPEC reflects long-standing divergence with Saudi Arabia. At its core are differing fiscal realities. Saudi Arabia, with a larger population and capital-intensive development strategy, requires higher oil prices. The UAE, more diversified and fiscally resilient, can sustain lower prices and has stronger incentives to maximise output. These differences have repeatedly generated tensions over production quotas. Over time, economic divergence has spilled into foreign policy, with Abu Dhabi pursuing a more assertive and independent stance.

The move reflects not financial distress, but strategic confidence. It signals the UAE's willingness to decouple from Saudi-led oil policy and align more closely with its own economic interests, potentially including a preference for lower oil prices that also coincides with current US priorities. This is why it is being framed as a political win for Donald Trump, who has long criticized the cartel for inflating oil prices. It also reflects Abu Dhabi's frustration with fellow Arab states, which it believes failed to provide adequate support during Iranian attacks.

The timing, however, is shaped by the war. The Iran crisis has exposed the vulnerability of energy infrastructure and trade routes, undermining the logic of self-imposed constraints such as production quotas. In an environment where security is no longer guaranteed, states are less willing to sacrifice flexibility for collective gains. Looking ahead, the move also positions the UAE for a post-war environment. Having expanded its production capacity, Abu Dhabi is preparing to increase output and capture market share once current disruptions ease.

The Collapse of the Gulf Model

The Gulf's growth model, built on stability, tourism, logistics, and global connectivity, is now directly exposed to geopolitical risk. Non-oil sectors face uneven but significant pressures: tourism flows are weakening, airlines are absorbing losses, and logistics networks are disrupted. At the same time, the stakes are global. Oil price spikes feed directly into inflation, supply chains, and food security. Disruptions to fertilizers and chemical inputs sourced from the Gulf raise the risk of broader economic stress.

Recent forecasts reinforce the scale of the shock. [According to the Institute of Chartered Accountants](#), GCC economies are now expected to contract by 0.2% in 2026, a downgrade of more than four percentage points from projections just months ago, as disruptions to energy exports, shipping routes, and tourism take hold. The downturn is uneven, with trade- and travel-exposed economies facing the sharpest pressure, particularly as transit through the Strait of Hormuz remains constrained. While the outlook points to a strong rebound, growth is projected to surge to 8.5% in 2027 as oil output recovers and investor confidence returns, this recovery is highly conditional. It depends not only on stabilisation in energy markets, but on the restoration of secure transit routes and a credible regional security environment. In that sense, the near-term contraction and projected

rebound capture the core tension of the Gulf model today: strong underlying fundamentals, but increasing vulnerability to geopolitical disruption.

Figure 2: GDP by Sector % of Total Economy and Tourism Receipts

	Transport	Wholesale Retail and Retail	Hospitality	Tourism BOP Gross Receipts % of GDP
Bahrain	5.0	4.0	1.7	11.5
Kuwait	1.8	3.7	0.7	1.4
Oman	5.8	8.3	1.8	2.4
Qatar	4.1	7.7	1.0	3.9
Saudi Arabia	3.1	9.2	2.3	3.3
United Arab Emirates	5.2	12.7	1.8	12.9

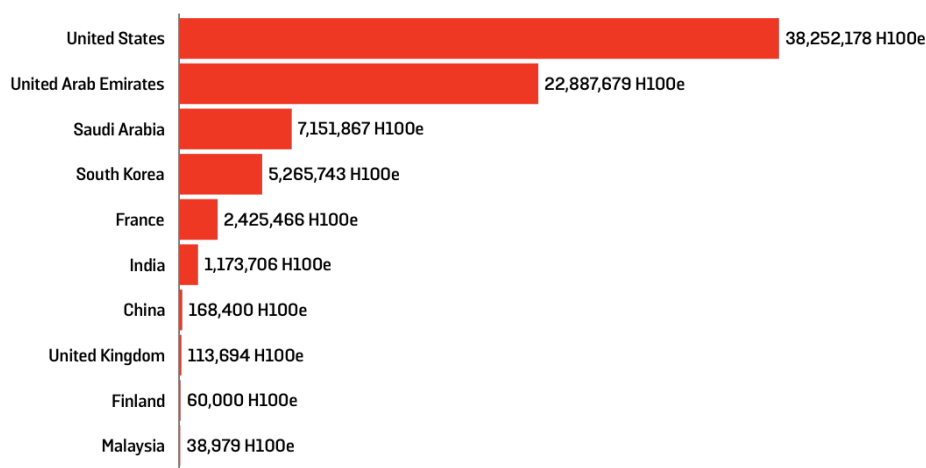
Source: ISPI online

The Securitisation of Technology: Data Centres in the Battlespace

The Gulf is rapidly emerging as a global digital infrastructure hub, driven by massive investments in data centers, hyperscale projects, and national digital strategies. As of 2025, The GCC market, valued at \$3.5bn in 2024, was projected to exceed \$9.4bn by 2030, supported by AI, cloud adoption, 5G, and data localization policies that require in-country infrastructure. Governments, sovereign funds, and global tech firms, from AWS and Microsoft to Huawei and Oracle, had been jointly building large-scale capacity across the region.

Figure 3: Top 10 Countries by Planned AI Compute Investments

Totals reflect planned investments in high-end AI computing infrastructure, standardized using NVIDIA H100-equivalent* chips, widely used to train cutting-edge AI systems.



SOURCE: Epoch.ai

* "H100 equivalents" convert different AI chips into a common performance-based unit (a benchmark), allowing comparison of national compute capacity. The dataset includes planned investments (signed contracts) for AI supercomputers. Dataset is not exhaustive of all investments; it is considered to be broadly representative.

Source: Foreign Policy; Epoch.ai

Drone strikes have already hit technology facilities, and key infrastructure has been explicitly identified as part of the battlespace. Drone strikes hit AWS facilities in the UAE and Bahrain, while Iran explicitly identified major tech infrastructure as targets. AI systems have effectively become part of the battlespace, exposed to low-cost, high-impact attacks. The Islamic Revolutionary Guard Corps then published a list of 29 technology targets across Bahrain, Qatar, and the UAE, including facilities linked to AWS, Microsoft, Google, and Nvidia.

Data center developers, including Pure Data Center Group, have halted new investment decisions as rising oil prices, supply chain disruptions, and direct security risks—such as drone strikes and infrastructure damage—undermine the viability of large-scale projects.

The vulnerability is structural: while data can be replicated, physical compute infrastructure cannot. Damage to a single site eliminates local capacity and carries reputational costs, undermining the Gulf's appeal as a secure destination for global talent and long-term AI investment.

Yet the response is unlikely to be withdrawal. Both the US and Gulf states remain committed: Washington seeks to anchor the region within its AI ecosystem, while Gulf governments view AI as central to diversification. Instead, the outcome is deeper securitization. Access to technology will increasingly come bundled with security guarantees, tighter political alignment, and greater US leverage.

This shift will raise costs. Higher insurance, redundancy requirements, and defense integration will become standard, with governments playing a larger role in shaping deals. In effect, AI infrastructure is no longer purely commercial, it is becoming a strategic asset where protection is built into the investment itself.