

Ambassador Talmiz Ahmad

Adviser, West Asia & North Africa, Ananta Centre

Former Indian Ambassador to Saudi Arabia, Oman & UAE

HIGHLIGHTS

- Political Developments
- Oil-Related Developments
- Other Economic Developments

I Political Developments

1. King Salman bin Abdulaziz appoints his son as crown prince: In a dramatic announcement from the royal palace on 21 June, Saudi ruler, King Salman bin Abdulaziz appointed his son, Prince Mohammed bin Salman, deputy crown prince, as the crown prince, removing the incumbent, Prince Mohammed bin Nayef. While it has been apparent for the last two years, ever since King Salman became the ruler in January 2015, that his son's authority and influence was increasing steadily, the announcement making the young prince heir-apparent was surprising: it had seemed unlikely that the king would oust a senior royal, that too for the second time (Prince Muqrin having been removed earlier as crown prince in April 2015) to make way for his son. This seemed to go against the normal royal family tradition of maintaining family unity and ensuring that princes are not humiliated publicly and nurse grievances.

Now, viewed in light of the king's decision to elevate his son to the second highest office in the country, Prince Mohammed's career graph shows a steady upward trajectory over the last two years. At his father's accession to the throne, the then 28-year old prince was named defence minister and head of the royal court. In April 2015, he was named deputy crown prince and the chair of the Council for Economic Development, which gave him full control over economic and energy policy.

With his regular media appearances and interviews to western media, he became the principal spokesman of his country and it's most important and visible face. He is also the architect of the ambitious "Vision-2030" programme of wide-ranging economic reform that will prepare mould of a less oil-dependent kingdom, with a robust private sector and extensive employment of Saudi youth outside government organisations.

Prince Mohammed bin Salman has also been in the forefront in shaping the Saudi political and military challenge to Iran. As defence minister, in March 2015, the prince led his country into direct military conflict with the Houthis in Yemen and their ally, former president Ali Abdullah Saleh. He also set up the Salafi militia grouping in Syria, Jaish al Fatah, which has cooperated on occasion with the Al Qaeda-affiliated Jabhat al-Nusra, in an effort to effect regime change in Damascus. While both conflicts have been extraordinarily destructive, they have ground into stalemate, and as of now a military settlement does not seem likely.

The prince has refused to contemplate the possibility of dialogue with Iran, shaping his rejection in strong sectarian terms. He made repeated references in the interview to the Shiite ideology of the Iranian state, and said it was impossible to have dialogue with an entity that believes its policies are divinely-guided to prepare conditions for the return of the Imam Mahdi – who Twelver Shiites believe will return from hiding before the end of times and establish just rule across the world. Prince Mohammed asked rhetorically: “How do you have a dialogue with a regime built on an extremist ideology ... which [says] they must control the land of Muslims and spread their Twelver Jafari sect in the Muslim world?”

He ended the interview with a threat: noting that Iran’s ultimate aim was to wrest control of Islam’s holiest site in Mecca, he warned: “We won’t wait for the battle to be in Saudi Arabia... Instead, we will work so that the battle is for them in Iran, not in Saudi Arabia.”

Prince Mohammed’s most significant achievement to date has been his success in obtaining full political and military support for the kingdom from US president Donald Trump. Soon after Trump backed the Saudi-led military alliance at the Riyadh Summit at the end of May, an emboldened prince, backed by the UAE, Bahrain and Egypt, initiated a diplomatic, economic and communications blockade against Qatar. This was in response to the emir’s remarks recommending engagement with Iran and warning against too much dependence on Trump who was facing serious political problems at home.

Unnamed GCC officials also briefed commentators that there would be attempts to promote unrest among Iran’s Sunni minorities – Arab, Kurdish, Baluchi and Turcoman – to promote regime change even as pressures would be brought upon Qatar to recant its positions and re-join the anti-Iran coalition. These threats, read with the earlier remarks of Prince Mohammed, led some Iranian officials to blame Saudi Arabia for the attacks in Tehran in early June on the national assembly and the mausoleum of Ayatollah Khomeini, though they have been claimed by ISIS.

While Prince Mohammed’s elevation has been welcomed by some commentators as signalling the advent of a young, modern and forward-looking royal, most others are sceptical, and fear that the impulsive and arrogant prince, bolstered by his affiliation with the White House, could aggravate regional tensions, possibly even a direct conflict with Iran.

2. Qatar blockade continues: In a major escalation of the blockade imposed upon Qatar by Saudi Arabia, backed by Bahrain, the UAE and Egypt, on 23 June, thirteen wide-ranging demands were submitted to Qatar as the price for lifting its two-week trade and diplomatic embargo on Qatar. The demands include

- * Close down al-Jazeera television network and all its affiliates, plus other Qatar-funded news outlets
- * Close a military base operated by Turkey
- * Expel all citizens of Saudi Arabia, Egypt, UAE and Bahrain currently in Qatar
- * Hand over all individuals wanted by those four countries for terrorism
- * Stop funding any extremist entities that are designated as terrorist groups by the US
- * Provide detailed information about opposition figures Qatar has funded
- * Shut down diplomatic posts in Iran
- * Expel members of Iran’s elite Revolutionary Guard
- * Conduct trade and commerce with Iran only in conformity with US sanctions

The list, handed to Qatar also requires Qatar to stop interfering in other countries’ domestic affairs. Qatar would also be required to rescind citizenship given to anyone from Saudi Arabia, UAE, Bahrain or Egypt if it was deemed that they had broken the law of these countries. Qatar is also asked to hand over records on opposition groups it had supported in the four countries leading the blockade and the kind of support they had received. The list asks Qatar to pay reparations to the four countries that initiated the boycott as “compensation for its policies”, cut ties with terrorist, sectarian or ideological groups, including the Muslim Brotherhood, end the funding of terrorism, and hand over terrorists.

Finally, Saudi Arabia and its neighbours call for a monitoring mechanism to ensure Qatar is meeting the demands, with checks once a month for the first year, every three months for the second year, and once a year for 10 years after that.

Qatar has been given 10 days to comply with the demands. In response, Qatar has insisted that it would not accept any demands that compromised its sovereignty or amounted to interference in its internal affairs. It has also denied various Saudi and UAE allegations against it. The Gulf state said that it would only negotiate an end to the crisis once the embargo had been lifted. Turkey's defence minister rejected suggestions that it should review its military base in Qatar and said any demand for its closure would represent interference in Ankara's relations with the Gulf state.

West Asia commentator James Dorsey has said that these conditions, if accepted by Qatar, "would turn the Gulf state into a Saudi vassal, were unlikely to facilitate a quick resolution of the three-week-old Gulf crisis. In fact, they may complicate a resolution that would allow all parties to claim victory and save face."

On 27 June, Saudi foreign minister Adel Jubeir said there would be no negotiations over demands by the kingdom and other Arab states for Qatar to stop supporting terrorism. Doha retorted that the allegations against it and demands were baseless and unacceptable. Qatar has previously also said the demands were aimed at curbing its sovereignty.

U.S. Secretary of State Rex Tillerson met with Qatari Foreign Minister Sheikh Mohammed bin Abdulrahman Al Thani at the State Department on 27 June. Al Jazeera quoted Al Thani as saying that the countries had presented "claims that are not proved by evidence and are not demands. The demands must be realistic and enforceable and otherwise are unacceptable."

In a further complication, the Senate Foreign Relations Committee Chairman Bob Corker has announced that he will be blocking U.S. arms sales to GCC member states to pressure a resolution to the escalating row over Qatar. In a letter to Secretary of State Rex Tillerson, Corker said that until there is a path for resolving the ongoing dispute, he will block all such sales. Major arms sales are subject to preliminary approval by the chairman and ranking member of the Senate Foreign Relations Committee and the House Foreign Affairs Committee before the statutory 30-day congressional review process.

3. Egypt's parliament approves transfer of islands to Saudi Arabia: Egypt's parliament approved the transfer of two key islands in the Red Sea, Tiran and Sanafir, to Saudi Arabia, restoring ownership after more than half a century, and the demarcation of a new maritime boundary between the two countries. The handover was then ratified by President Abdel Fattah el-Sisi on 24 June.

The islands are currently uninhabited and barren, but their location is of strategic importance as they are just a few kilometres off the coast of the Egyptian resort town, Sharm El-Sheikh, and are located at the mouth of the Gulf of Aqaba in between Saudi Arabia and Egypt. The deal has been facilitated by Saudi Arabia promising to invest at least \$25 billion in aid and investment into Egypt. The projects would include development of areas on its Red Sea coast for greater access for tourists and visitors. The two countries have also discussed building a land bridge connecting the two countries, with the proposed Saudi-Egypt causeway using the islands.

The Egyptian commentator Maged Mandour has pointed out that, although the legal battle was settled in favour of the regime, it has shown that the judiciary—though largely co-opted by the regime—still has significant pockets of opposition that are capable of resisting the regime under certain circumstances. Furthermore, for the first time, the legal process exposed Sisi to criticism from within the military establishment, causing unprecedented friction among elites. Mandour concludes that, though this win appears to have consolidated the regime's power, "it is a Pyrrhic victory that undermines its own nationalist narrative of protecting the homeland" and creates an issue around which heterogeneous forces of the opposition could rally in future.

4. Bombing campaign against ISIS: The U.S.-led coalition waging the air war against the Islamic State released 4,374 weapons in Iraq and Syria in May — by far the most of any month since the war began. The pace of airstrikes under "Operation Inherent Resolve" has grown increasingly aggressive throughout 2017: in January, the coalition dropped 3,600 weapons, which set a new record. In March, the number of weapons released surpassed even that and reached 3,878, before dropping down slightly to 3,274 in April.

The bulk of the weapons released were precision-guided munitions supporting Iraqi ground forces and allied Syrian rebels fighting in the contentious ISIS strongholds in West Mosul and Raqqa. Most of the targets included ISIS fighting positions, tactical vehicles and heavy weaponry, oil infrastructure, car bombs and related facilities, and buildings being used by ISIS as headquarters, safe houses, security and media centres.

5. Syria: On 19 June, a day after a US Navy fighter jet shot down a Syrian warplane, Russia warned that aircraft operating where the shoot down occurred would be considered "air targets" for its forces in Syria. The Russian Ministry of Defence called the downing of the plane "a cynical violation of the sovereignty of the Syrian Arab Republic" and "military aggression." As a result, it said, Russia has stopped using a key "de-confliction" communication channel set up to avoid conflict between US and Russian forces in Syria.

The Syrian military acknowledged the loss of its aircraft and said the pilot was missing after ejecting. This is the first time the US has shot down a Syrian aircraft since it began fighting ISIS in the country in 2014.

Later, in a dramatic warning to Syria, the White House said on 26 June that it has seen "potential preparations for another chemical weapons attack" by the Syrian government. The White House statement also warned that Syria would "pay a heavy price" if any such attack proceeds. The statement gave no details of the purported preparations or of how they had been detected, saying only that "the activities are similar to preparations the regime made before its April 4, 2017, chemical weapons attack."

Several US officials, in private conversations with the media, expressed surprise at the announcement, and said that the state and defence departments had not been consulted. A Syrian minister dismissed the White House statement, saying Damascus has not and will not use such arms. Ali Haidar, the minister for national reconciliation, said that the allegation foreshadowed a "diplomatic battle" that would be waged against Syria at the U.N. Russian officials accused the U.S. of laying the groundwork for an attack on Syrian forces.

Commentators in Washington believe that the immediate fallout of this week's accusation could be limited since the US's main priority is still ISIS. However, after the fall of Raqqa, there could be a confrontation between pro-regime forces and the U.S.-backed SDF, particularly since the US administration has signalled it is willing to use force against Assad. Given that opposition to Syria's ally Iran is emerging as the principal motive force of the Trump administration's West Asia strategy, it seems unlikely that the U.S. will agree to simply cede areas captured from ISIS back to Assad.

6. Iraqi diplomatic initiative: Iraq's Prime Minister Haider al-Abadi headed on 19 June to Saudi Arabia, the first leg of a West Asia tour that will also include Iran and Kuwait. This is viewed as a diplomatic effort to foster regional reconciliation. Abadi's visit to Saudi Arabia aims to promote reconciliation between the Sunni Muslim kingdom and majority Shi'ite Iraq and also to help heal deep and bitter divisions between Iraq's Shi'ites and its Sunni Muslim minority.

Abadi had been due to visit Riyadh in the previous week but postponed his trip to avoid appearing to take sides in a diplomatic dispute that erupted between Qatar and several other Arab states, including Saudi Arabia. Abadi's meeting with King Salman of Saudi Arabia was their second meeting this year. Before his departure, Abadi affirmed that Iraq would not join any regional alliance; he said: "We don't want to be part of any axis... We want to coordinate with these states to continue fighting terrorism," a reference to the Islamic State.

According to the joint statement, Iraq and Saudi Arabia pledged to work together against terrorist and extremist forces. The two countries will also set up a coordination council to upgrade strategic ties, as part of an attempt to heal troubled relations between the Arab neighbours. The spokesman for the Iraqi foreign ministry, said the two countries planned to boost cooperation in various sectors including oil, economy, trade, intelligence and counter-terrorism.

7. Yemen: On 20 June, the Houthi-Saleh government's Foreign Minister Hisham Sharaf met UN Resident Coordinator in Sana'a Jamie McGoldrick and delivered three messages to the United Nations Security Council on the situation in Yemen. The messages emphasized the sovereign right of the Republic of Yemen to defend and preserve the sovereignty and territorial integrity of its territories. The messages also stressed that Yemen extends the hand of peace and attacked what it called the "illegal practices" of the pro-legitimacy coalition in many lands and islands in the country.

According to the Houthi news agency, the meeting between the two parties tackled the deteriorating humanitarian situation in Yemen, especially with the spread of cholera and what the UN, the organizations, agencies and programs operating under its umbrella provide.

Separately, there are reports from the UAE that attempts are being made to detach Saleh from the Houthi alliance and revive his fortunes in Yemen through the rehabilitation of his son Ahmad, who was till 2015 the Yemeni ambassador in Abu Dhabi. A statement was circulated last month by UAE Minister of State for Foreign Affairs Anwar Gargash in which he said he had spoken "with the friends in the Kingdom of Saudi Arabia, the United States and Russia" about the need to allow Ahmed Ali Abdullah Saleh's return to the country to play a more useful role in his country.

The UAE is said to be supporting the campaign to activate the Saleh-led General People's Congress Party's role on the Yemeni political scene, to use it against the Muslim Brotherhood group which is represented in the country by the Yemeni Congregation for Reform. Reports from Riyadh also suggest that efforts are being made to effect a reconciliation between the Congress Party leaders loyal to Saleh and those close to the Mansour Hadi so that the party could play an active role during the next stage, with Ahmad becoming defence minister.

II Oil-Related Developments

A weekly report by the Energy Information Administration (EIA) on 21 June said crude inventories had fallen 2.5 million barrels and gasoline stockpiles slipped 0.6 million barrels. But, it also noted that petroleum in storage was still plentiful and that gasoline was above the upper limit of the average range for this time of year. Following this report, the price of the benchmark WTI crude fell to \$42.34 a barrel, down 2.69 percent, far below its price of \$54.45 a barrel in February. The Brent benchmark slid to \$44.85 a barrel, down 2.54 percent.

There are several reasons why prices have not responded more to the OPEC-non-OPEC production cuts: a more than doubling in the number of drilling rigs and increases in shale-drilling efficiency have boosted U.S. crude oil production to more than 9.3 million barrels a day, up about 850,000 barrels a day in September last year. Again, Nigeria and Libya, both experiencing internal political strife and exempt from OPEC quotas, have boosted production, offsetting other OPEC cuts and raising OPEC's total output. Moreover, Iraq is said to be cheating on its quotas, and Russia, while reporting lower production, is exporting more oil than ever.

III Other Economic Developments

1. FDI into GCC countries: The "World Investment Report 2017" provides a mixed picture on foreign direct investments (FDIs) into the Gulf countries. GCC economies collectively attracted about \$20.9 billion in 2016, down from \$23.3 billion in 2015. The figures for 2014 and 2013 are \$20.7 billion and \$22.5 billion, respectively. The combined inflows into the GCC are not significant by global standards — India alone enticed about \$45 billion of FDIs in 2016.

The sustained drop in inward investments into Saudi Arabia is partly responsible for GCC's inability to post larger figures. Saudi Arabia had some \$39.5 billion as FDI in 2008, only to see the figures declining subsequently, with the UAE later emerging as the primary recipient. The latest data on inward FDIs into the kingdom stand at \$7.5 billion in 2016, down from \$8.1 billion in 2015.

Among other things, the report confirms the UAE's regional leadership in attracting foreign investments, getting \$12 billion in 2016; thus, the UAE has generated more than half of the GCC inflows. The UAE is the second largest economy within the Arab world, but the main destination for FDIs. At \$774 million, Qatar ranks a distant third in Gulf states' ability to attract FDIs. Like other GCC countries, Qatar experienced a slide of foreign investments in 2016. Inflows of FDIs into Bahrain, Kuwait and Oman amounted to \$282 million, \$275 million and \$142 million, respectively.

2. Decline in Saudi foreign reserves: Net foreign assets at Saudi Arabia's central bank, a measure of its ability to support its currency, look set to fall sharply this year as oil prices slump and Riyadh expands its sovereign wealth fund to invest abroad. They shrank from a record high of \$737 billion in August 2014 to \$529 billion at the end of 2016, as the government liquidated some assets to cover the huge budget deficit caused by the fall in oil prices.

This year, an austerity drive and a partial rebound in oil prices have helped Riyadh make progress in cutting the deficit -- which narrowed 71 percent from a year ago to 26 billion riyals (\$6.9 billion) in the first quarter.

But, net foreign assets have continued to shrink at about the same rate, by \$36 billion in the first four months of 2017. Some analysts have speculated the fall is due to spending on Saudi Arabia's military intervention in Yemen. This is unlikely: a top Saudi official indicated in late 2015 that the intervention -- largely a limited air campaign, not a major ground war -- was costing about \$7 billion annually, in line with estimates by foreign military experts.

An international banker in touch with Saudi authorities said much of the decline in foreign assets appeared due to the transfer of money to state funds investing abroad -- particularly the main sovereign wealth fund, the Public Investment Fund (PIF). Riyadh plans to invest big amounts overseas to win access to technology and boost returns on its capital.

The PIF has said it will invest up to \$45 billion over five years in a technology fund created by Japan's Softbank, and \$20 billion in an infrastructure fund planned by U.S. firm Blackstone. Transfers to the PIF would not represent any reduction in the government's total wealth, but they would mean a cut in the liquid assets which the central bank has available to defend the riyal if needed.

(The views expressed are personal)
