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West Asia Digest

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Highlights

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Major Political Developments

1. **Prime Minister Narendra Modi visited Doha,** Qatar, on 4th and 5th June, this being his fourth visit to a Gulf country in just ten months, an unprecedented interaction with a region of great importance to India's strategic, energy and economic interests, and which is home to eight million Indian nationals. Though ranked 166 globally in terms of size, Qatar's significance lies in its gas reserves, which are the third largest in the world after Russia and Iran, and in its status as the world's largest LNG exporter. India obtains 7.5 million tonnes of gas from Qatar annually, which is likely to increase by another one million this year.

   Mr Modi's visit had been preceded by the visit of the Qatari Amir, Sheikh Tamim bin Hamad Al Thani, to India last year, which had followed three visits of the former Amir, Sheikh Hamad, and that of former Prime Minister Dr. Manmohan Singh, in 2008. Mr Modi's visit took forward bilateral energy and economic relations, besides promoting ties in security and defense areas. Seven agreements were signed during the visit, covering cooperation in investments, tourism promotion, skill development, customs & financial intelligence, and health & sports.

2. The last fortnight continued to see **fighting against the Islamic State** [IS], in both Iraq and Syria. In Iraq, the Iraqi national army, supported by militia and US special forces, has been attacking the IS in Fallujah, 50 km west of Baghdad, since end-May; this town has been under IS occupation for two years. The IS forces are putting up a stiff fight and progress has been relatively slow, with heavy casualties on both sides. Over 90,000 civilians are said to be trapped in Fallujah. In recent months, the IS has lost the towns of Tikrit and Ramadi, so it now has only two towns, Fallujah and Mosul under its control. In the fighting, there have been allegations by Human Rights Watch (HRW) that Iraqi militia have abused civilians (mainly Sunni) who have fled from Fallujah; this has been forcefully denied by the militia.

   In Syria, the IS "capital" of Raqqa is being attacked separately by national army forces, backed by Russian air assaults, and the Syria Democratic Force (SDF), consisting of Kurdish militia and other multi-denominational forces which are supported by 200 US special forces, with reports that there might be some "undeclared coordination" between the US and Russia. The SDF is also attacking the pocket of Manjib, an enclave on the Syria-Turkey border that is still under IS control.

3. In regard to **Yemen**, the UN special envoy, Ismail Ould Shaikh Ahmad, said that the parties were close to a settlement, but political concessions from both sides were still required. At the same time, he warned that the humanitarian situation was deteriorating, and over seven million people faced starvation. Separately, the Prime Minister in the Hadi government, Ahmad bin Dagher, landed in Aden along with some ministers to put in place some semblance of government in this war-torn country.

Oil Price Scenario

THROUGH THE LAST FORTNIGHT, oil prices remained around $ 50/barrel, which allowed OPEC oil ministers meeting in Vienna on 2nd June, to declare that their policy of defending the market and letting the market determine prices was working, and that no production cut of even freeze was called for. The only reassurance the market got was from the Saudi oil minister, Khalid al Falih, that his country would be "gentle in its approach and make sure we don't shock the market", affirming that the Kingdom would not flood the market with increased production and bring prices crashing down, just to hurt Iran economically.

The minister added: "The market is rebalancing. Demand is extremely healthy and robust. Non-OPEC supply is declining. Prices will respond to the rebalancing of the market." The Qatari energy minister asserted that "the worst is over", while the UAE energy minister predicted that demand would grow by 1.2 million barrels per day and forecast a price of $ 60/barrel, in 2017. Other commentators believe that the present rise in prices is due to temporary factors, such as reduced production from Canada, Nigeria & Colombia, and could get reversed when production was restored.

Other observers have also pointed out that prices at $ 50/barrel would encourage at least some shale oil producers to get back into production; on 4th June, there were reports that nine new rigs had begun operating, though this is still a small number compared to the 1000 rigs that have idled from early last year.

The Iranian minister, Bijan Zanganeh, insisted that OPEC should fix country-wise quotas, and that his country's quota should be 14.4% of OPEC's overall output; this, if implemented, would allow Iran to produce 4.7 million barrels per day, well above its present production.

Regional Non-Oil Developments

1. **FOLLOWING UP ON THE** "Vision 2030" announced in April this year, the Saudi government on 6th June published the "**National Transformation Programme: 2020**" (NTP) which is aimed at implementing the first phase of the "vision" to take the country to a post-oil future. The NTP covers the crucial areas of public finances, energy, mining, investments, trade, employment and privatization. Some of the highlights of the NTP are:
   — Non-oil revenue to rise to $ 141 billion in 2020 from $ 43 billion at present;
   — Public sector wage bill to be reduced to $ 121 billion from $ 155 billion;
   — Saudi credit rating to rise two levels to Aa2;
   — Illiteracy to be brought down to 2.5% from 5.3%;
   — Internet usage to cover 85% of the population as against 63% today;
   — Subsidies on energy and water to be reduced by $ 53 billion by 2020;
   — Unemployment to go down to 9% from 11.6%; share of women to go from 23% to 28%;
   — $ 80 billion to be budgeted to support privatization of state enterprises by promoting "Centres of Excellence"; and,
   — Private sector is to fund 40% of the initiatives included in this programme.
2. The countries of the Gulf Cooperation have announced the setting up of a new agency, the **Economic and Development Affairs Authority**, which is meant to boost coordination and integration among the countries of the six-member body. The first item on its agenda is the achievement of a customs' union and a common market.
3. The **World Bank lowered the growth outlook for GCC economies** this year to 2% as against 2.9% achieved last year, even as it reduced its forecast for global growth from 2.9% to 2.4%. It also reduced growth in the UAE to 2% from 3.1% forecast in January. Saudi growth was pruned to 1.9%, down from 2.4% predicted earlier this year. It is based on its assumption of oil price of $ 41/barrel for 2016, as against $ 51 assumed in January. It projects that oil will be $ 50 in 2017 & $ 53 in 2018. For West Asia as a whole, the World Bank has forecast growth of 2.9%, based on strong recovery in Iran. The Bank warned that West Asia could still face difficulties due to a further fall in oil prices, escalation in regional conflicts, and social unrest and security challenges in countries outside the war zones.

   In 2016, India is expected to grow at 7.6% and China at 6.7%.

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(The views expressed are personal)