

HIGHLIGHTS

- **Political Developments**
- **Oil-Related Developments**
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Political Developments

1. Iraq

The long-awaited assault on Mosul began from 17th October. It consisted of about 30,000 Iraqi troops, including US-trained special counter-terrorism forces, elements of the mainly Shia Popular Mobilisation Forces [PMF], about 10,000 Sunni tribal militia, and 6,000 Kurdish peshmerga; these were backed by about 9,000 US and NATO special forces. These troops are pitted against 6-8,000 ISIS militants said to be in Mosul.

The main body of the Iraqi forces moved swiftly northwards from Qayyara airbase, and took villages and largely abandoned towns on the east bank of the Tigris, such as Bakhdida, Bartella and Bashiqa, and, in ten days, reached within 5-6 km of the Mosul border. The Kurdish forces have come southwards from the northeast, while the PMF have been positioned on the west of Mosul. Given the anti-Sunni atrocities alleged to have been committed by the PMF when Sunni towns were liberated earlier, it has been officially stated that they will not enter Mosul; their responsibility is to prevent ISIS elements from escaping westwards into Syria. Another body of federal troops is coming up more slowly from the south.

These early movements have been described as a "shaping operation", i.e. efforts at consolidating positions around Mosul by taking hilltops, roadways and crossings that will facilitate the major attack to come. The final capture of Mosul has been variously estimated at a month or a few weeks. The fight for Mosul is expected to be quite difficult since the ISIS have dug ditches around the city and filled them with oil and rubber tyres which they have set on fire, impeding visibility and movement. ISIS are also said to have dug tunnels across Mosul to avoid detection. The Iraqis hope that, in the face of the formidable military forces mobilised against them, some of the ISIS's local allies in Mosul might abandon the ISIS and thus shorten the conflict. There are also reports that some ISIS fighters are shaving their beards and changing their attire, suggesting that they might try to melt in the crowds and escape rather than fight to the bitter end.

Mosul, with about a million residents at present, is at the heart of roadways going south to Baghdad, north to Turkey and west to Syria. As the "capital" of the "Islamic State" and the home of its leader Abu Bakr al-Baghdadi, its fall will deal a major blow to the 'Caliphate' and seriously diminish the allure of the Islamic State in the eyes of jihadis across the world. Hence, ISIS forces are expected to fight tenaciously for their state and leader. There are already reports that ISIS are re-locating the local population to use it as human shields and that a few hundred people have already been killed.

Iraqi and allied forces have already experienced some stiff resistance from ISIS fighters with explosive devices, snipers and even suicide car-bombs. Again, in a diversionary assault, the ISIS attacked Kirkuk, 160 km from Mosul, with 50 heavily-armed militants. Observers believe that the Kirkuk attack suggests the likely pattern of ISIS's insurgent attacks once Mosul has fallen and the "caliphate" collapses. The attack on Kirkuk may also have been aimed at dividing the Arabs from the Kurds, given that the latter have wanted to control this oil-rich but Arab-dominated city for several years.

Turkey-Iraq differences have also come to the surface as the Mosul operation reaches endgame: for a year, Turkey has had about two thousand of its troops stationed in the northeast of Mosul, at the Bashiqa airbase, 60 km from Mosul. As the liberation of Mosul becomes imminent, Iraq has demanded that Turkey withdraw its troops from Iraqi territory. Turkish leaders have curtly rejected this demand, insisting that they are in Iraq at the invitation of Barzani's Kurdish Democratic Party [KDP] and the Sunni leader of Mosul's Ninewah province to train their forces for the Mosul attack. US attempts to reconcile its allies in the war have failed, with the Turks insisting that they will actively participate in the Mosul attack as guardians of the local Turkoman people and of the Sunnis in general by ensuring that no demographic changes are effected in the northern liberated towns by displacing the Turkoman people, who had numbered about 400,000 in the Nineweh province, mostly in Talafar. The Iraqis fear that Turkey could seek to re-take the Ninewah province that the Turkish Republic lost to the British after the First World War.

The fall of Mosul will have significant implications for Iraq and the region as a whole. First, the immediate military and political actions after the liberation of the city will decide whether Iraq will maintain its ruinous sectarian divide or work towards shaping a pluralistic political entity. This will require vigorous control over the PMF to prevent large-scale killings of Sunnis, so that the latter begin to believe that the government is genuinely committed to the accommodation of Sunni interests.

Second, besides the Haidar Al-Abadi government in Baghdad, both Iran and Turkey are major role-players in the Iraqi scenario and remain anxious to retain their influence in Iraqi affairs, one, on the side of Shia forces and the other on the Sunni side. It remains to be seen if their differences will evolve into a larger conflict or get contained through diplomatic effort.

Third, the aftermath will also indicate the dimensions of Kurdish aspirations. It will augur well for Iraq and the region if they opt to retain their autonomy within a pluralist Iraqi political dispensation; on the other hand, perhaps believing that western powers are with them, they could be tempted to make a push for an independent homeland, which would unravel the region's security structure and promote conflict for decades to come.

However, the Prime Minister of the Kurdish government, Nechirvan Barzani, has been quoted as saying that "as soon as Mosul is liberated, we will meet with our partners in Baghdad and talk about our independence".

Finally, the ISIS, while seriously diminished as a doctrinal, military and political force, is not likely to disappear: it could mutate into an insurgent force, tapping into Sunni grievances and building up its support bases among the impoverished and marginalised Sunni rural and small town populations in Iraq. Its allure can only be combated by real political change in Iraq, a daunting challenge in itself.

2. Yemen

For the first time in the Yemen conflict, the US military targeted Houthi positions; this was in response to two attacks on US naval vessels in the Red Sea on 9th and 12th October. Even as the Houthis denied that they were responsible for the attacks, the US launched cruise missiles on Houthi radar facilities at the ports of Khokha and Mokha on Thursday, 13 October. After these attacks, the US reiterated it had no wish to expand its role in the conflict. Later, on Sunday, 16th October, the US navy detected a possible attack from the Yemeni shore, but took defensive measures and did not mount any retaliatory action.

For most of the last fortnight, the US and the UN envoy, Esmail Ould Shaikh Ahmad, attempted to obtain a ceasefire and revive the peace process. A 72-hour ceasefire came into effect from the midnight of 19-20 October, to facilitate the movement of humanitarian supplies. However, like the previous five ceasefires, this one too failed amidst mutual recriminations of violations and bad faith. The Saudi-led air

strikes began immediately after the three-day lull, while Houthi forces were said to be attacking a number of provinces in central Yemen.

As the month ended, the UN envoy circulated a "peace plan", described as a "written road map that addresses security and political arrangements". It makes the sidelining of President Abd Rabbo Mansour Hadi and his Prime Minister, Ali Mohsin Al-Ahmar, key factors in the peace process: the plan provides that Hadi will delegate all his powers to a new Vice President, who will then nominate a new Prime Minister. The latter will in turn set up a government of national unity in tandem with the Houthi withdrawal, under international supervision, from Sanaa, Taiz and Hodeidah. The plan envisages a one-to-two year transition period after which presidential elections will be held.

In a first reaction, the foreign minister in the Hadi government, Abdul Malek al-Mekhlafi, insisted that the disarming of the Houthis and their withdrawal from the captured cities be part of the peace plan. The UAE welcomed the initiative, with minister of state Anwar Gergash saying on Twitter that "alternative options are dark". Later, President Hadi himself seemed to be less accommodating: his spokesman has insisted that the Houthis first disarm and withdraw from occupied towns after which the people will approve a new constitution and elect a new president.

The extensive blood-letting and destruction in Yemen and the obvious stalemate on the battlefield have compelled the UN envoy to make one more effort to push through a peace plan that would begin the process of national reconciliation. The latest attempt reflects the envoy's and US view that the "legitimacy" of the Hadi regime needs to be reviewed if the Houthis are to be brought to the negotiating table. While the plan also calls for the Houthis to withdraw from the major towns in their control, they are to be an integral part of the new government, which will be in position for a fairly long transition period. It remains to be seen if Saudi Arabia, which has relentlessly pushed its maximalist agenda of denying the Houthis any political role in their country, will now be more accommodative; the chances of such statesmanship seem remote.

As the month ended, the GCC countries joined in a loud chorus to condemn a massive Houthi missile attack that they said had been directed at the holy city of Mecca, which was intercepted about 65 km before the city. The Houthis have denied attacking Mecca, saying that their missiles had been directed at Jeddah airport.

3. Syria

The Syrian battlefield has witnessed over the last fortnight continued attempts of government forces and their Russian allies to capture Aleppo through military action, the sustained criticism of both from the US and its allies, for the humanitarian cost being extracted from the beleaguered people of Aleppo, and one more futile attempt at a ceasefire.

President Bashar al Assad told a Russian journalist that the capture of Aleppo was essential to ensure that the "terrorists" holed up in that city were shipped back to Turkey from where they had come. Both the US and Russia held several meetings to halt the bombings and revive the peace process. On Tuesday, 18 October, Russia agreed to a daily eight-hour "humanitarian pause" in its bombing of Aleppo for three days as a "goodwill" gesture. It also provided for eight exit routes from the city, six for civilians and two providing safe passage for the rebels.

Not much good came from this effort: the rebels from different groups rejected the offer outright, no civilians exited, and humanitarian agencies said that the guarantees provided for their security were not sufficient. With the expiry of the truce, fighting resumed with the previous ferocity. Government attempts to remove the wounded were resisted by the rebels, leading Syria and Russia to accuse the rebels of using the civilians as human shields and regrouping for a fresh assault on government positions. The UN secretary general said that no aid has reached Aleppo since 7 July and that food would run out by end-October.

During the bombing halt, senior US and Russian officials also met to discuss identifying the "moderate" rebels and de-linking them from the Al Qaeda-linked "terrorists". With the Al Qaeda-affiliated Jabhat Nusra now firmly placed among the moderates by Saudi Arabia, the futility of this effort is obvious. At

month-end, Russia also declared the futility of further truces: Deputy Foreign Minister, Sergei Rybakov, said that "conditions" for fruitful ministerial-level interaction with the US would not be available before the US elections on 8th November. Russian spokespersons continue to assert that Assad has to stay in power since the alternative to him is Jabhat Nusra.

As the month ended, there were reports that the rebel forces had launched a massive attack on government positions in the west of Aleppo in order to relieve government pressure on rebel positions in the east of the city. The rebels, equipped with tanks, armoured vehicles, bulldozers, mine sweepers, pickup trucks and motor cycles, consist of Jabhat Nusra and other Islamist groups.

Separately, Turkish forces in Syria continue their robust attacks on ISIS and Kurdish positions. In mid-October, the Turkish-backed militia captured the town of Dabiq from ISIS, depriving the latter of a town with considerable symbolic significance as the site of the final dooms-day battle between Islam and the forces of evil.

President Erdogan has said that the military operations could be expanded to take the cities of Al Bab and Al Manjib, which would prevent the consolidation of Kurdish territory at the Turkish border.

In fact, with the imminent fall of Mosul, attention of the principal players in Syria is likely to shift to ousting ISIS from Raqqa, its "capital" in Syria. Erdogan has already spoken of his discussions with the US on joint action to liberate Raqqa, though he has insisted that the Syrian Kurds be excluded from this effort. Observers believe that the fight for Raqqa will be even more complicated than the Mosul attack, given the deep divisions in the country, the competing geo-strategic interests of the regional states, and the rivalries of the big powers.

Oil-Related Developments

Through the last fortnight, Brent prices remained between \$ 50-52/barrel, responding to news of production by OPEC members, and statements of oil ministers and analysts on the proposed freeze/ cut in oil production by OPEC and some non-OPEC countries, at the OPEC ministerial in November.

As of now, Russia, Kazakhstan and Brazil are the three major non-OPEC members which are expected to join the November meeting. However, the scenario has been complicated by Iraq rejecting the possibility of any cut in its production, even as it is producing at the peak level of 4.7 million barrels per day [mbd]. Iran too has announced that it will take its own production to the pre-sanctions level of 4 mbd by year-end, up from its present production of 3.89 mbd. Libya and Nigeria, whose production had been adversely affected due to domestic conflict, have also raised their production.

These developments impacted oil markets as OPEC officials met in Vienna on 28th October to discuss output quotas for members participating in the agreement to cut production: Brent futures for December went down to \$ 50.32, while WTI went to \$ 49.72, reflecting market scepticism that OPEC would be able to implement the cut. Meanwhile, Saudi Arabia has announced that the Kingdom and its GCC allies are willing to cut 4% from their peak production.

Remarks by oil ministers and oil traders at a conference in London last week suggest that, while the worst has passed and the market is "rebalancing", oil prices will remain between \$ 50-60/ barrel over the next 3-4 years, setting up a price-band for producers; these prices have been seen as "sufficient to develop the low-cost resources" and permit increases in production to meet market needs. An IEA official also noted that prices near \$ 60 would "stimulate some high-cost production" as well, particularly US shale oil. A shale oil executive said his industry had been "devastated" by low prices and needed a price range of \$ 60-80 for long-term increases in production. The World Bank now estimates a price of \$ 55 next year, above its earlier estimate of \$ 53.

Separately, the IEA has revised its estimate of the share of renewables in the global energy basket, from 23% in 2021, to 28%, the principal push coming from policy changes in the US, China and Mexico. Again, IEA predicts that global electricity generated by renewables will increase by 42% to reach 825 gigawatts [GW] by 2021, showing a 13% increase over its estimate last year.

Other Economic Developments

The last fortnight saw a number of international institutions making forecasts about the GCC economic scenario in the wake of low oil prices. The S&P ratings agency said that the GCC's cumulative funding requirement could reach \$ 560 billion between 2015-19, the fiscal deficit being \$ 150 billion (12.8% of combined GDP) in 2016. Saudi Arabia would account for 60% of the GCC's funding needs. A rise in oil prices to about \$ 55 in 2019 would ease the situation to some extent; this would be supported by government initiatives to cut expenditure and boost revenues. However, the agency admitted that current expenditures would be difficult to cut due to political considerations, while capital expenditure would also remain high to boost growth. This will ensure that GCC funding needs would remain high, while government accounts will remain in deficit.

The funding needs of the GCC will also ensure that its bonds markets will witness record sales: these bonds will be more attractive than bonds from other regions such as Asia, Latin America and the Eurozone due to their better performance at present oil price conditions. GCC governments could raise between \$ 285-390 billion through local and international bonds, up to 2020, according to local market estimates.

Domestic economic reforms in the GCC following the fall in oil prices have had the positive effect of lowering the break-even oil prices in the GCC countries. The Washington-based Institute of International Finance [IIF] has noted that, as against the break-even price of \$ 87 in 2014, the GCC average will be \$ 69 in 2016 and \$ 66 in 2017. Among GCC members, Kuwait is the best placed with a break-even price of \$ 52 and \$ 55, for 2016 and 2017; the UAE has also seen its break-even price go from \$ 76 in 2014 to \$ 56 and \$ 55 in 2016 and 2017.

The low oil prices and related labour-market "rationalisation" have had a negative impact on remittances from the GCC countries: in 2016, remittances to South Asia are expected to decline by 2.3%, following a 1.6% fall in 2015; declines to India will be 5% and to Bangladesh, 3.5%. India will remain at the top of remittance-receiving countries: remittances in 2016 will be \$ 65.5 billion (as against \$ 69 billion in 2015), followed closely by China at \$ 65.2 billion.

India-West Asia Ties

The appointment of Mr Navdeep Suri as the next Indian Ambassador to the UAE has been officially announced. He has served earlier in Cairo and Damascus, and was most recently the High Commissioner to Australia. He has had extensive experience of Africa as well. With the visit to Delhi in January of the Crown Prince of Abu Dhabi, Sheikh Mohammed bin Zayed Al Nahyan, as the Chief Guest at India's Republic Day celebrations, Ambassador Suri during his tenure will preside over a significant expansion of India-UAE economic and political ties.

The Indian Minister for Road Transport, Highways and Shipping, Mr Nitin Gadkari, and the Minister of State for External Affairs, Mr MJ Akbar, made a major effort to attract UAE investment in India's infrastructure. Mr Gadkari said that this was pursuing projects valued at \$ 500 billion, including road projects of \$ 230 billion, with \$ 150 billion earmarked for port-led development, including industrial clusters and waterways.

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(The views expressed are personal)
