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West Asia Digest

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Given the interest in the region and rapid political and economic developments taking place in West Asia, our monthly West Asia Digest will now be issued fortnightly.

Highlights

- Political Scenario
- Oil Prices
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Political Scenario

THE LAST FORTNIGHT SAW some important developments relating to the peace processes in Syria and Yemen, the attempts being made by Saudi Arabia to build new alliances and security institutions to safeguard its interests vis-s-vis Iran, and the visit of US President Barack Obama to Riyadh for dialogue with the Kingdom and the GCC leaders collectively.

The talks on Syria ["Geneva III"] commenced on 18 April under UN auspices and with the active involvement of US and Russian diplomats, with the UN Special Envoy Staffan de Mistura meeting separately the government teams and the various opposition groups. On the next day itself, the Saudi-based Higher Negotiations Commission (HNC) announced its formal withdrawal from the talks due to differences on the transition political arrangements. It is insisting on a Transition Government Body (TGB) with full presidential powers, divided evenly between government and opposition figures but without President Bashar al Assad.

Alternative proposals from the government side, with Russian backing, have included retaining al Assad, and appointing three or five vice presidents to constitute a "Presidential Council" to run state affairs. The government has also agreed to share power with a 30-member cabinet, with 10 opposition representatives. Another idea is to set up a "Military Council", with 30% opposition participation, to set up a national army, remove foreign fighters from the country and implement ceasefires across the country in stages. At the end of this effort, the country would be well organized to take on the Islamic State [IS] militia.

These proposals, which retain al Assad in power, have led to the HNC delegation withdrawing from the talks, but it has remained in Geneva for behind-the-scenes discussions. Talks were suspended on 26 April and are expected to re-start in mid-May, though no firm date has been announced.

While the cessation of hostilities, agreed to in February, is still in place, Syrian forces have escalated the fight against the IS by attacking Aleppo with a view to re-taking the entire city. Not to be outdone, the US has announced that it will bolster its special forces in Syria to 250 to assist opposition militia against the IS.

The Yemen talks in Kuwait have been experiencing similar difficulties. First, the Houthi delegation did not show up in Kuwait on 18 April, citing continued Saudi bombings in violation of the ceasefire in place from 10 April; the Houthi team with its allies from the camp of former president, Ali Abdullah Saleh, finally showed up on 21 April. The talks' agenda includes security arrangements, disarming of militia, handover of heavy weapons and exchange of prisoners. To accommodate the different priorities of the two sides, it has been agreed that: (a) the question of the national leadership, which is important for the ousted president, Abd-Rabbu Mansour Hadi, and (b) the end to the bombings, the lifting of naval blockade and the removal of sanctions on the opposition leaders, would be discussed simultaneously in two working groups.

While these talks were making painful progress, the Saudi monarch, King Salman bin Abdulaziz, visited Cairo to shore up a strategic partnership based on: the return to Saudi Arabia of two islands at the mouth of the Gulf of Aqaba, which have been under Egyptian control since 1950, the agreement to construct a bridge from the Kingdom into the Sinai, linking Asia with Africa, which would have considerable military, political and economic implications, and the Saudi promise to invest up to $ 22 billion in Egypt. Saudi Arabia has also reached out to Turkey, Morocco and Jordan to put in place a solid “Sunni” alliance to balance Iranian influence in the region.

President Obama’s two-day visit to Riyadh from 20 April for discussions with King Salman and then with the assembled GCC monarchs ended with an affirmation of their security ties, with the US promising weapons, training, joint exercises and joint naval patrols. But, with the president to see the region as a strategic priority and commit US forces for military interventions, and the GCC forging new partnerships to bolster its security, it is clear that bilateral ties have undergone a significant change.

Oil Price

As expected, the meeting of 18 OPEC and non-OPEC members in Doha on 17 April to discuss a “freeze” in oil production at January 2016 levels ended without agreement: well before the meeting, the Saudi deputy crown prince, Prince Mohammed bin Salman, had said that his country would accept a freeze only if Iran was on board; he was well aware that Iran, just emerging from sanctions, would not accept this restriction. Analysts have pointed out that the Kingdom never had much enthusiasm for such a “freeze”: its principal interest is in driving out expensive oil from the market and retaining its market share, in the confidence that it can sustain low oil prices for another two years if required.

This seems to be working for now: US oil production has dropped below 9 million barrels per day [mbd], the lowest in 18 months. At prices below $ 40/barrel, US output could fall further. On the other hand, observers note that if Saudi Arabia had accepted the freeze, prices could have bounced to $ 50 which would have brought US shale oil production back into the market.

As of now, oil prices are holding up above $ 40/barrel. They were boosted by the assessment of the International Energy Agency (IEA) that 2016 will see a major fall in non-OPEC production, which would re-balance the market. IEA believed that there would be sharp production falls in the US, Canada, Latin America and Russia, primarily due to cut backs in investment by about 40% over the last two years. IEA’s forecast pushed Brent prices to $45.92/barrel, a 70% increase over the low of $ 27/barrel in January. Another analyst, Mirabaud Asset Management predict that there would be a decline of 1.3 mbd in non-OPEC production in 2016; global supplies would be even lower if there is decline in OPEC production in Nigeria, Iraq and Venezuela.

At the end of the month, World Bank forecast that, in the second half of 2016, refinery demand would rise and US production decline further to yield an average price of $ 41 for the year, still 19% below last year's average, but a 51% rise over the low of January 2016.

Regional Economic Situation

On Monday, 25 April, Prince Mohammed bin Salman, Saudi Deputy Crown Prince, unveiled his “Vision-2030” which aims to end his country’s “addiction” to oil, set it up as a global financial centre and over time effect certain remarkable economic, social and cultural changes in the country. Some of the main points in the “Vision” are:

- turn the Public Investment Fund [PIF], set up in 1971 to finance the government's commercial projects, into the country’s sovereign wealth fund with assets of over $ 2 trillion: this will mainly be achieved by transferring the ownership of the national oil company, ARAMCO, to PIF; to this end, ARAMCO will be restructured as an energy company and is likely to have a value of $ 2-3 trillion;
- 5% of ARAMCO shares will be offered for public ownership;
- another $ 1 trillion will be raised through sales of state-owned real estate holdings, and other industrial and economic assets;
- non-oil revenues will be increased from $ 43 billion last year to $ 160 billion in 2020 and $ 320 billion by 2030;

- non-oil sectors such as mining, manufacturing, retail trade, tourism, healthcare and pilgrimage will be developed so that the country emerges as a logistics hub for east-west trade, a global financial services center and a major manufacturing base;
- the number of Umrah pilgrims would be increased from 8 million to 30 million per year;
- private sector contribution to the GDP will go from 40% to 65%;
- foreign direct investment [FDI] will go from 3.8% of GDP to 5.7%;
- 50% of the country's defense equipment will be manufactured domestically;
- participation of women in the workforce will go from 22% to 30%;
- a green card system will be introduced for expatriates; and,
- Saudi Arabia will move from being the 19th largest economy globally to among the top 15.

The presentation of the prince, while painting a picture of dramatic transformation, was short on detail on how the ambitious targets would be achieved, leading some observers to doubt that the conservative kingdom could actually give up its "addiction" to oil and accept the wide-ranging changes the young prince has envisaged. The commentator Karen Young has described the Vision document as a "strategy release" not a blueprint for implementation. She points out that, while the immediate impetus for this document is the dramatic fall in oil prices, the Saudi economy has been in urgent need of wide-ranging reform in financial services, public expenditure and labor market reform for at least two decades which was delayed due to the massive inflow of financial resources from high oil prices.

Another commentator, Richard Wilson sees the "Vision" as a manifesto announcing "a new relationship between the ruling monarchy and its people, promising a better, more efficient and more transparent government" in all parts of Saudi society. The prominent UAE businessman, Khalaf Ahmad al Habtoor, notes that the Vision document has three core themes — a vibrant society, a thriving economy and an ambitious nation. He concludes with the ringing assertion: "We [the GCC] will show the international community that we are not dependent on anyone or anything, and prove that we can be successful surpassing all expectations."

Bloomberg has described the prince as one "who believes in change [and] is quietly transforming the Kingdom."

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(The views expressed are personal)