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Highlights

Political Scenario

After sustained conflict over the last five years, there are hints of peace in both Syria and Yemen. In Syria, the US and Russia promoted a "cessation of hostilities" in late February, that, to the surprise of most observers, was generally successful and prepared the ground for a UN-led initiative to re-convene the Geneva- III "proximity" talks between the Assad regime and the opposition in late April. The divide between the two sides remains wide, with differences on certain fundamental matters, such as the role of President Bashar Al Assad in the "transition" arrangements, the framing of a new constitution and national elections.

The Assad regime has, with Russian help, removed the Islamic State (IS) from Palmyra and is attacking IS elements at its strongholds at Deir Ez Zour and Raqqa, its "capital" in Syria. The regime has also gone ahead with parliamentary elections. These are being held in territories controlled by the government, i.e., a third of the country and 60% of the population. The opposition has described them as illegitimate and provocative.

While Russia continues to back the Assad regime, it has also been in touch with certain "moderate" opposition elements and is projecting a "constructive" approach to bring peace to the country. Iran on the other hand is extending full support to Assad, providing him with militia from its revolutionary guard and the Hezbollah.

Turkey, which, in association with Saudi Arabia and Qatar, has been actively backing the opposition militia, now faces a serious challenge from the Syrian Kurds, who have set up an autonomous enclave all across the Turkey-Syria border and are providing full support to their brethren in Turkey itself. Turkey has now reached out to Iran to build up a joint effort against the threat from Kurdish aspirations.

The Yemen conflict has also seen some dramatic developments after a year of the Saudi-led military intervention which began in March last year. This March, Saudi Arabia announced it was scaling back its operations; a ceasefire took effect from 10 April, which has largely held. Separately, the Kingdom also began behind-the-scenes talks in Riyadh with its principal enemy, the Houthis. Formal talks will take place in Kuwait from 18 April. The outlook remains uncertain since the Saudis seem to be driving a wedge between the Houthis and their ally, former president Ali Abdallah Saleh, and promoting his arch-rival General Ali Mohsen Al Ahmar as prime minister.

In a major initiative to bolster its strategic position vis-a-vis Iran, Saudi Arabia has reached out to Egypt with a path-breaking visit to Cairo of the Saudi king, Salman bin Abdulaziz on 7 April. During this visit, Egyptian president Abdel Fattah Al Sisi ceded to Saudi Arabia sovereignty over two Red Sea islands (located at the strait that separates the Gulf of Aqaba from the Red Sea) and agreed in principle to link the Kingdom and Egypt with a land bridge that has political, economic and military significance.

Oil Price Outlook

The last month has been mainly about the impact on oil prices of the "freeze" in production proposed by some major OPEC and non-OPEC producers. Encouraged by the prospect that reductions in production are already in place and will be formally approved at the 17 April meeting of major producers, oil prices have remained between $ 38-42/barrel, 40% above the low of $27/barrel in January this year, leading some observers, including the OPEC secretary general Abdallah Salem El Badri, to suggest that prices have "bottomed".

Iran, just emerging from the crippling sanctions era, has declined to participate in the "freeze", with its oil minister referring to it as a "very funny joke". Its exports have exceeded 2 mbd after the lifting of sanctions, doubling its exports since the sanctions period. Iran's total production is now 3 mbd; it hopes to join the "freeze" when its production reaches 4 mbd, though the timeframe is not clear at present.

The 17 April meeting, convened by Qatar, is not a formal OPEC meeting, though all members and some non-members have been invited. The Paris-based International Energy Agency (IEA) has said that most producers are already producing at full capacity, so talk of a "freeze" is meaningless; it does agree that supply-demand gap will narrow in 2017 and boost prices. The Bank of America has said in a note that a "hard output freeze" agreement in Doha, coupled with "some enforcement mechanism" would boost prices above $ 50; conversely, if an agreement were not reached and Saudi Arabia increased production in response to Iranian production, prices would fall below $ 40.

Observers have pointed out that prices will be boosted only through a cut in production: the joint OPEC and Russia production is presently 43.3 mbd; analysts believe that a cut of 5%, ie, about 2 mbd, would absorb the supply glut, and lead to prices of about $ 60-70/ barrel very quickly, stabilizing at $ 80 in 2017. However, prices of around $ 40/barrel would also encourage increased US shale oil production and flatten prices to some extent.

Economic Reforms in the GCC

The countries of the Gulf Cooperation Council (GCC) are likely to have fiscal deficits of about 12.5% of GDP in the current year as against 9% last year, with sovereign borrowings of about $ 250 billion, possibly going to $ 390 billion by 2020. Not surprisingly, the countries are also in the throes of reform: all of them have accepted the introduction of VAT of 5% in 2018; Kuwait has announced an across-the-board corporate tax of 10%, while all six countries have introduced cuts in fuel subsidies.

The fall in oil prices and the consequent decline in government revenues has compelled an extraordinary openness to acceptance of new ideas relating to wide-ranging reforms across the GCC region. Ernst & Young have set the tone with a report that asserts that, if the GCC countries were to become one market and maintain growth of 3.2% annually for the next 15 years, this market would become the sixth largest in the world by 2030, similar in size to Canada and Russia.

The report notes that, while all the GCC countries are pursuing reforms to attract foreign investors, reduce or even end subsidies, introduce taxation, effect public sector reform across the board efficiencies, the results would be even more spectacular if these initiatives were implemented in a single market scenario, with removal of barriers to cross-national trade and investment. A single market would reduce overall trade costs by 12%, boost productivity and attract higher levels of foreign direct investment. This would boost GCC GDP by 3.4% or $ 36 billion.

The UAE, Iran, Qatar and Saudi Arabia have been identified as the most attractive targets for foreign direct investment by IHS Global Insight. The UAE is projected to grow at 3.5% annually over the next ten years due to the recovery of Abu Dhabi's oil exports and Dubai's place as an aviation, shipping, trade and tourism centre.

Saudi Arabia

The Kingdom is experiencing a fiscal deficit of about 20%, using up its reserves at $ 10-15 billion every month. In this situation, the announcement by its deputy crown prince, Prince Mohammed bin Salman, that 5% of the national oil company, ARAMCO, would be publicly traded has dramatically captured world attention. While details are sketchy, it appears that Saudi Arabia will transform the existing Public Investment Fund (PIF) into the world's largest sovereign fund, valued at $ 2 trillion, by injecting into it the partial monetisation of the ARAMCO stake sale and other public funds (perhaps, from the central bank, the Saudi Arabian Monetary Agency [SAMA]). The annual revenues from the fund and other income obtained by the government will over time reduce the share of oil revenues in the annual budget from 90% at present to less than 50%.

Later in April, Saudi Arabia will publish its National Transformation Plan which is expected to reveal wide-ranging medium-term fiscal and other economic reforms.

Arab Youth Back Moderation & The UAE

A SURVEY COVERING 3500 Arab youth in the age bracket of 18-24 years has found a wide-spread rejection of the violence and extremism of the Islamic State [IS] and the conviction that it will fail in its objective to set up an Islamic State across the Arab world. A large number of those surveyed felt that absence of employment opportunities attracted many young people to the IS. Many respondents also expressed concern over the increasing sectarian divide in the region. Again, while those surveyed preferred stability over democracy, most still sought personal freedom and human rights, particularly for women. Many expressed concern over the fall in oil prices, but wanted energy subsidies to continue.

Finally, for the fifth year running, the survey placed the UAE in first place for employment and residence as it was seen as "a safe and secure country with a thriving economy that offers good job opportunities", as also for its excellent educational institutions and respect for diverse cultural traditions. It was also number one among countries that those surveyed wanted their own country to emulate.

India in the Region

1. The most important development in respect of India's ties with West Asia was the visit of Prime Minister Modi to Riyadh in early April. Taking place six years after Prime Minister Manmohan Singh's visit to the Kingdom when the two countries agreed to realize a "strategic partnership", Mr Modi's visit set out in detail the specific areas of cooperation in regard to security, defence, political interaction and enhanced economic engagement that would shape the partnership in coming years.
2. The Indian Petroleum Minister Dharmendra Pradhan visited Tehran on 9-10 April, after which he announced India's willingness to invest $ 20 billion in Iran's hydrocarbon, petrochemical and fertilizer projects, subject to favourable terms being offered. This visit will be followed by that of external affairs minister Sushma Swaraj to Iran on 16 April.
3. In Dubai, Petroleum Minister Pradhan said that a consortium of four Indian public sector oil companies would be bidding for the remaining 22% of Abu Dhabi Oil Company (ADNOC)'s onshore oilfield concession.
4. The Indian public sector dredging company, Dredging Corporation of India [DCI], based in Vishakhapatnam, has signalled its interest to re-enter the Gulf market after nearly 15 years, by appointing a Dubai-based company, Arabian Ocean Services, as its marketing consultants for West Asia. DCI have judged that, in spite of the low oil prices, exploration activity in the region is in full swing as are port development, maintenance and reclamation projects.

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(The views expressed are personal)