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HIGHLIGHTS

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I Political Developments

1) Syria: US Secretary of State Rex Tillerson announced on 17 January that US forces, numbering about 2000, would remain in Syria. He said this was “crucial to our national defence” and mentioned three reasons: security of Israel; preventing the re-emergence of ISIS, and “expelling malicious Iranian influence” and preventing it from dominating the Middle East. This proposal has evoked sharp criticism from Stephen Kinzer, formerly of the New York Times, who said Tillerson’s announcement made it clear that Syria was becoming “a new front in the “long war” that the United States seems determined to fight in the Middle East”. He argued that no vital US interests were involved in Syria, but US involvement in the Syrian civil war “will promote instability, feed radicalism, divide NATO, and expose American troops to deadly attack”.

The situation in Syria has been further complicated by the entry of Turkish forces into northern Syria on 21 January, along with elements of the Turkey-backed Free Syrian Army (FSA), to attack Syrian Kurdish forces, the People’s Protection Units (YPG), located at the town of Afrin, in northwest Aleppo province. A week later, Turkish forces had taken Azaz, about 22 km from Afrin, which is being bombarded by Turkish aircraft.

The immediate provocation for the Turkish attack was a Pentagon declaration that the United States now plans to extend indefinitely its military presence in northeast Syria and build a largely Kurdish force of 30,000 to help achieve its aims. The declaration infuriated Turkey’s President Recep Tayyip Erdogan, who called the northern Syria Kurdish forces a “terror army” established by the US. He vowed that the Turkish military would cross into Syria to “strangle” the new US-backed force “before it was born.”

The backbone of the new militia is expected to be the Syrian Democratic Forces (SDF), the US-backed group that is led by the Kurdish People’s Protection Units (YPG) that also include some Arab forces. Turkey has also alleged Saudi, Emirati and Egyptian support for the outlawed Kurdish Workers Party (PKK), thus broadening the local conflict into a major regional dispute.

The United Arab Emirates and Egypt are said to have taken the lead in criticizing Turkey’s incursion into Syria designed to remove US-backed Kurds from the countries’ border and create a 30-kilometre deep buffer zone. UAE Minister of State for Foreign Affairs Anwar Gargash has said the incursion by a non-Arab

state signalled that Arab states would be marginalized if they failed to develop a national security strategy. Egypt condemned the incursion as a "fresh violation of Syrian sovereignty" that was intended to "undermine the existing efforts for political solutions and counter-terrorism efforts in Syria."

Despite Saudi silence, *Yeni Afaq*, a newspaper closely aligned with President Recep Tayyip Erdogan's ruling Justice and Development Party (AKP), has charged that a \$1 billion Saudi contribution for the reconstruction of Raqqa, the now Syrian Kurdish-controlled former capital of the Islamic State, was evidence of the kingdom's involvement in what it termed a "dirty game."

The Turkish incursion has strained Turkey's ties with the US. On 27 January, Turkish foreign minister Mevlut Cavusoglu said his country wants to see "concrete" steps from the United States to re-establish trust between the two NATO allies. These steps, he said, include severing U.S. ties with the YPG, stopping supply of weapons to them and taking back the arms supplied earlier, as well as pressing for their withdrawal from Manbij. Cavusoglu claimed that U.S. National Security Adviser H.R. McMaster had confirmed in a phone call with the Turkish president's spokesman on 26 January that the U.S. would no longer arm the Syrian Kurdish fighters.

US commentator Joshua Landis believes that the US is not likely to be accommodative of Turkish interests in Syria. He says: "By keeping Damascus weak and divided, the US hopes to deny Iran and Russia the fruits of their [military] victory. Washington believes this pro-Kurdish policy will increase US leverage in the region and help roll back Iran."

2) Sochi peace conference: Peace talks on the future of Syria began in the Black Sea resort of Sochi on 29 January, under the title: "Congress of the Syrian National Dialogue."

The United Nations envoy for Syria, Staffan de Mistura attended the talks, along with representatives from the Syrian, Iranian and Turkish governments. The main opposition bloc - the Syrian Negotiations Commission (SNC), also known as the Higher Negotiation Committee (HNC), announced it would boycott the conference, claiming it is an attempt to undercut the United Nations' (UN) effort to broker a deal. However, ten members of the HNC attended the conclave.

However, the Saudi-backed "Syria's Tomorrow Movement" (STM) announced its members would attend the conference. In its official statement, the STM said it accepted the Russian invitation to the Sochi conference in order to "reflect the Syrians' will to end the war and [to achieve] democratic political transition in the country". Furthermore, the STM said that it "respects" the will of the Syrians who had rejected the conference but stressed that the Syrian opposition should not reject joining the international efforts to end the war in Syria.

The STM is headed by Ahmad Jarba, who is well-known as "Saudi Arabia's man in Syria", and has strong support from Egypt's government as well. The movement is also known to have strong financial influence over many major opposition groups in Syria, including Jaysh al-Islam.

The Sochi conference is meant to examine the key questions on Syria's national agenda. These include the drawing-up of a framework for the future structure of the state, the adoption of a new constitution, and the holding of elections under United Nations supervision.

The Sochi conference witnessed some dramatic moments. A group of opposition delegates, including members of the armed opposition who had flown in from Turkey, decided to stay put at Sochi airport in protest at Syrian government flags and emblems that were on display at the airport. This boycott forced the organizers to delay the start of the conference. Turkey was eventually asked to represent the boycotting groups as a compromise.

The peace conference started after a two-hour delay, with Lavrov reading out a statement from President Vladimir Putin saying conditions were ripe for Syria to turn "a tragic page" in its history. As he read out the statement, some delegates started shouting slogans against Moscow for killing civilians in Syria with its airstrikes. The anti-Moscow chants were met with slogans in support of Russia.

At the end of the conference, the participants agreed to set up a 150-member committee to discuss changes to the existing Syrian constitution. They even listed candidates from various Syrian factions who

they would like to see on the constitutional drafting committee, which would be based in Geneva. Russian Foreign Minister Sergei Lavrov said the groups absent from Sochi will also be invited to name representatives. The conference endorsed a "democratic" path for Syria through elections and called for respect for the country's territorial integrity.

Staffan de Mistura, United Nations Special Envoy for Syria, said on 30 January that delegates had agreed to include both government officials and opposition in the 150-member committee. He added that the final agreement on the committee would be reached in the UN-led diplomatic process in Geneva based on UN Security Council Resolution 2254 - which serves as a framework for political transition in Syria. But the fate of President Bashar al-Assad - a key sticking point that has repeatedly caused ongoing negotiations to fail - was not mentioned in the final statement.

Syria's major opposition groups, which boycotted the event, rejected the proposal to set up a constitutional committee. The main opposition bloc - the Syrian Negotiation Commission (SNC) - accused Assad and Russia of continuing to use military might and showing no interest in entering into honest negotiations. Instead, the bloc wants the government and the opposition to set up a transitional governing body first.

Charles Lister, an analyst with the US-based Middle East Institute, said the conference was "Russia's way of showing that it can pull together a broad spectrum of pro-regime and accepting-of-the-regime political parties in Syria." However, he said, without the opposition's involvement in large numbers, no real negotiations were possible. He concluded: "Until that changes, we're going to continue to watch many of these different kinds of conferences in different cities, and unfortunately the crisis in Syria will continue."

3) Iran

(i) Demonstrations in Iran: Popular demonstrations swept across Iran from 28 December, with the agitators expressing deep-seated anger at their economic plight and robustly condemning their leaders and the political order headed by them.

On 28 December, a local cleric in the holy city of Mashhad urged the populace to come out on to the streets to protest about rising prices. The crowds responded enthusiastically and shouted: "No to high prices" and "Death to Rouhani". Demonstrations then spread to other towns of Iran, so that in five days more than 50 towns had been affected, including the capital, Tehran.

The slogans too got more political and strident; they included: "Death to the Dictator" (a reference to Supreme Leader Ayatollah Khamenei); "Death to the Revolutionary Guards"; "People are paupers, while mullahs live like gods"; "Independence, Freedom, Iranian Republic", and "We don't want the Islamic Republic".

In Qom, Iran's holiest city, some demonstrators even recalled the founder of the Pahlavi dynasty, saying: "Reza Shah, bless your soul". In some instances, slogans also criticised Iran's foreign forays, such as: "Leave Syria alone; do something for us" and "Neither Gaza nor Lebanon, my life for Iran".

Initially, state response was restrained, with security forces using water cannon to disperse the demonstrators. President Rouhani upheld the Iranians' right to protest, saying that they were "absolutely free to criticise the government". But, later when public properties were attacked, strong action was taken, which left about two dozen dead, while hundreds were arrested.

Khamenei blamed the "enemies of Iran" who were using their "money, weapons, politics and intelligence services" to attack the Islamic Republic. Ali Shamkhani, secretary of the Supreme National Security Council, accused foreign powers - Saudi Arabia, Israel, the US and the UK - of directing a "proxy war" against Iran to "collapse the nation from within".

The key factors driving the anger were almost identical to those that propelled the Arab Spring: unemployment, inflation and rampant corruption. Unemployment in the country is 12.5 percent but is much larger among the youth. Inflation has been brought down from a high of 40 percent in 2013 to about 10-12 percent, but the cost of certain essential food items remains high: consumption of bread, milk and meat has decreased between 30-50 percent over the last decade.

The standard of living of Iranians has deteriorated by about 15 percent in the last ten years, leaving at least 14 million, out of a total population of 81 million, living in absolute poverty. Popular anger has been exacerbated by the experience of rampant corruption. On social media, the ongoing agitation was dubbed: "Movement of the hungry".

Economic policies pursued by Rouhani aggravated popular discontent. Since his election in 2013, he has presented austerity budgets, focusing on: privatisation, tax reform, limited public spending, and encouragement to foreign direct investment. But, Rouhani's policies crashed against the realities of the Iranian order made up of inefficient state enterprises, cronyism and corruption.

While earlier, the economy was stymied by the sanctions regime, now, after the nuclear agreement, it has been adversely affected by the visceral hostility of the Trump administration, along with its threat to withdraw from the agreement and re-impose sanctions. This has discouraged expansion in trade and foreign investment, which had been envisaged by Rouhani as key benefits after the nuclear agreement to promote employment.

Not surprisingly, unlike the middle-class agitators of the 2009 uprising who were protesting about vote-fraud, this time the demonstrators were from the working class, but also included pensioners, government and private sector employees affected by rising prices, persons who lost their savings in dubious unlicensed savings schemes, and unemployed youth. Again, unlike 2009, when the demonstrations began from Tehran, now the agitations were from smaller provincial centres, with only limited involvement of Tehran. As against a few million who had come out on to the streets in 2009, the total number now was a more modest 20,000-30,000.

There is little likelihood that the Islamic Republic will experience regime change as a result of these agitations, however enthusiastic and fervent they might be, largely on account of the coercive power available with the state order. But, the anger of the populace is real and very deep.

It affirms that the "business-as-usual" approach of the clerical leadership, and the division of spoils of state assets amongst its constituents, is viewed as illegitimate and unacceptable, and the extraordinary authority enjoyed by unelected leaders, with lifetime appointments, is an anachronism that has no place in contemporary Iran.

On 7 January, the revolutionary guard corps (IRGC) said security forces had ended the unrest. In a statement on its website, it blamed the unrest on the United States, Israel and Saudi Arabia. The IRGC also claimed the exiled opposition group, the Mujahedeen-e-Khalq, and supporters of the monarchy that was overthrown in the 1979 Islamic Revolution were behind the protests.

Exposing the divide between himself and the hardliners, President Hassan Rouhani said on 5 January that young Iranian protesters were unhappy about far more than just the economy and they would no longer defer to the views and lifestyle of an aging revolutionary elite. He said: "It would be a misrepresentation (of events) and also an insult to Iranian people to say they only had economic demands. People had economic, political and social demands."

(ii) US hostility towards Iran: On 12 January, President Donald Trump issued his "waiver" of nuclear-related sanctions on Iran. He described this as a "last chance" for the JCPOA parties to negotiate an agreement "to fix the terrible flaws of the Iran nuclear deal," including the lack of constraints on ballistic missile development. He called on Congress to state explicitly that "long-range missiles and nuclear weapons programmes are inseparable, and that Iran's development and testing of missiles should be subject to severe sanctions." Trump's statement also called for a supplemental agreement with key allies that would, "impose new multilateral sanctions if Iran develops or tests long-range missiles."

US commentator Greg Thielmann, formerly with the US state department, has pointed out that "Iran's current ballistic missile development programme is neither illegitimate nor disproportionate given that country's size and security situation", and called on US policy makers to approach this matter in a more "balanced" manner.

Referring to the Trump administration's focus on withdrawing from the nuclear agreement on the missiles issue, Thielmann says: "From Washington's perspective, Iran's qualitative enhancement of its non-

nuclear medium-range missile force is undesirable, but such an outcome does not constitute a game-changer in the political dynamics of the region. On the other hand, losing the JCPOA in a vain attempt to crush Iran's missile programme would represent a major setback to global non-proliferation goals."

US Vice President Pence visited Israel on 23 January. He re-affirmed his President's commitment to recognise Jerusalem as Israel's capital and his country's support for the two-state solution. He had particularly harsh words for Iran: he described Iran as a "brutal dictatorship" that was seeking "to dominate the wider Arab world" by sowing chaos across West Asia. He also noted: "Iran devoted more than \$4 billion to malign activities in Syria, Lebanon and elsewhere across the region. It has supported terrorist groups that even now sit on Israel's doorstep. And worst of all, the Iranian regime has pursued a clandestine nuclear program, and at this very hour is developing advanced ballistic missiles."

Earlier, on 4 January, French President Emmanuel Macron accused the U.S., Israel and Saudi Arabia of instigating a war on Iran. The French leader called for dialogue with Tehran and criticized three of his international partners for pursuing what he considered bellicose policies toward a country the trio have increasingly sought to isolate and undermine in recent years. Macron said: "The official line pursued by the United States, Israel and Saudi Arabia, who are our allies in many ways, is almost one that would lead us to war;" it was "a deliberate strategy for some," he added.

Iran on its part has alleged that low intensity warfare is heating up in areas of the Islamic republic populated by ethnic minorities, including the Kurds in the northwest and the Baloch on the border with Pakistan. Iran's Intelligence Ministry said it had recently seized two large caches of weapons and explosives in separate operations in Kurdish areas in the west of the country and a Baloch region on the eastern border with Pakistan. It said the Kurdish cache seized in the town of Marivan included bomb-making material, electronic detonators, and rocket propelled grenades while the one in the east contained two dozen remote-controlled bombs.

The ministry accused Saudi Arabia of providing the weapons but offered no evidence to back up its claim. The ministry has blamed the Kingdom for several weapons seizures in the past year.

The Revolutionary Guards said earlier this month that they had captured explosives and suicide vests in the south-eastern province of Sistan and Baluchistan that had been smuggled in by a jihadi group that operates out of the neighbouring Pakistan region of Balochistan. Separately, a Guard commander said that three Guards and three Islamic State militants had been killed in a clash in western Iran.

4) Tunisia: Towards the end of January, there were widespread demonstrations across Tunisia, the origin of the Arab Spring of 2011 and the only Arab country with a democratic constitution. According to commentators, the primary motivation for the demonstrations is the economy, notably the austerity measures included in the 2018 budget and sudden price increase for basic goods and services such as flour and internet access. They note that Tunisians of all backgrounds are extremely dissatisfied with their household and national economic situations.

According to recent surveys, 47 percent of surveyed respondents said that their household economy worsened in the last year, while 62 percent said the national economy is worse compared to a year prior. Observers have raised concerns that the increasing scepticism of Tunisians, particularly the youth, with the political process could push them further into informal politics and civil society activism—and perhaps even lead to "an existential crisis for political parties and the democratic process".

This could have implications for other countries in the region: if grassroots trust in democracy is undermined, it could decrease the likelihood of other countries in the region seeking democratic systems.

5) Yemen: In a recent Chatham House report, Peter Salisbury described Yemen as a "chaos state" and painted a grim scenario of the situation on the ground. He said that the country has been divided into multiple "areas of control and influence," in which local tribal and political groups with their own narrow agendas, rather than the Hadi-affiliated national armed forces, have been the principal fighting force against the Houthis and against Al-Qaeda militants in the south. The Houthis are under military pressure and are expected to lose some territory and considerable local popularity due to their harsh rule, but any attempt to oust them from Sanaa or Hodeidah would cause large-scale civilian casualties.

The Yemen scenario has been further complicated by the increasing divide between the UAE and the Hadi government, whose restoration is the main reason for the ongoing conflict. The Hadi side alleges that the UAE is backing southern separatists to consolidate its control over the southern Yemeni ports.

On 28 January, Yemen's Prime Minister Ahmed bin Dagher accused southern separatists of attempting a coup after fighting erupted in the country's interim capital of Aden, leaving at least 15 dead, including three civilians. The separatists took control over the government headquarters in Aden. Dagher said that events in Aden were headed towards "total military confrontation" and urged members of the Saudi-led coalition, in particular the UAE, to take action.

On 30 January, there were reports that fighters from the southern secessionist movement had surrounded the presidential palace in Aden after three days of intense fighting. Prime Minister Ahmed bin Dagher and several senior government figures were holed up in the palace and were preparing to flee to Saudi Arabia. The Southern Resistance forces (SRF) have also captured the main barracks of troops loyal to President Abd Rabbo Mansour Hadi, who already resides in Riyadh.

The clashes in Aden, in which 36 persons have been killed and scores injured, threaten to weaken the coalition led by Riyadh in its conflict with Iranian-backed Houthi rebels. The secessionist Southern Transitional Council has supported the Saudi campaign, but a week ago it demanded Yemeni President Abd Rabbo Mansour Hadi dismiss his government, which it accuses of corruption. When Hadi refused to comply, the separatists orchestrated anti-government rallies and fighting broke out.

According to observers, Tensions in Aden indicate that Saudi Arabia and the U.A.E. have failed to develop a clear political and military strategy for the south. According to Yezid Sayigh, senior fellow at the Carnegie Middle East Centre in Beirut, "the Emiratis and the Saudis have been operating in very different ways on the ground inside Yemen. And they've ended up supporting different kinds of fighting groups."

The UN special envoy for Yemen, Ismail Ould Cheikh Ahmed, has announced he will not continue in his position after February. Britain is said to have played a role in securing his removal after he appeared to lose the confidence of the Houthis. Martin Griffiths, a former British diplomat and mediator with specialist Yemen knowledge, is being mentioned as his possible successor.

The revival of the peace process has never been more urgent. This will need the withdrawal of external forces from the country, accommodation between the Hadi and Houthi forces in a national unity government, and the shaping of a federal framework that will maintain national unity, while providing space for local aspirations.

This will require a high level of statesmanship from national leaders, international political support, and huge resources from global sources for immediate relief and restoration of facilities and infrastructure. Otherwise, the state will collapse into fratricidal war that could endanger stability across the region.

6) Saudi Arabia: Saudi Arabian billionaire Prince Alwaleed bin Talal was released from detention on 27 January, more than two months after he was taken into custody in the kingdom's sweeping crackdown on corruption. His release came hours after he told Reuters in an interview at Riyadh's Ritz-Carlton hotel that he expected to be cleared of any wrongdoing and be freed within days.

Prince Alwaleed had been confined at the Ritz-Carlton since early November, along with dozens of other royal family members, senior officials and businessmen, as part of Crown Prince Mohammed bin Salman's plan to reform Saudi Arabia and consolidate his own power.

Allegations against Prince Alwaleed included money laundering, bribery and extorting officials. In his first interview since he was taken into custody, conducted hours before his release, Prince Alwaleed told Reuters that he was continuing to maintain his innocence of any corruption in talks with authorities. He said he expected to keep full control of his global investment firm Kingdom Holding Co without being required to give up assets to the government.

On 27 January, Saudi attorney general Saud al Mojob announced that the anti-corruption campaign has netted more than \$106 billion in financial settlements, while 56 people still remained in detention and would be prosecuted. He said the settlements reached include seizure of real estate assets, commercial entities, securities and cash.

7) Oman: Saudi Arabia's Interior Minister Prince Abdulaziz bin Saud bin Naif visited Oman on 14-16 January, signalling a thaw in bilateral relations. Oman is not involved in the Saudi-led coalition war in Yemen, retains strong ties with Iran and has not taken part in the Gulf blockade of Qatar. Earlier, it was announced that Saudi Arabia would invest \$210 million in Oman, including in Duqm port which Muscat hopes will yield future non-oil related revenues.

During the ministerial visit, Saudi Arabia and Oman agreed to establish a joint investment fund to strengthen bilateral ties. According to press reports, Prince Abdulaziz also discussed security issues and regional developments during two days of talks with Omani officials.

The Saudi outreach to Oman is an attempt by the kingdom to wean Oman away from Qatar and Iran, with the promise of much-needed investments in the Sultanate's fragile economy. Oman has granted refuge to the family of former Yemen president Ali Abdullah Saleh who was killed by the Houthi militia near Sanaa in December.

II Oil-related Developments

The fall in the value of the dollar has boosted oil prices: on 23 January, Brent crude traded at \$69.41 a barrel, up 0.54 percent, while WTI crude was at \$63.89, up 0.5 percent. Later, on 29 January, WTI crude traded above \$66 a barrel, the highest since December 2014. Thanks to shale oil, US crude oil production is poised to break records by surpassing 10m barrels a day in 2018. The country's net imports of crude oil and petroleum products fell below 2.5m b/d late last year, the lowest since the early 1970s.

The growth in world economy identified by the IMF and others has had a positive effect on oil prices as fuel consumption rises: world oil demand will reach 99.1m b/d this year, up 1.3m b/d on last year, the International Energy Agency estimates. Bank of America projects average prices of \$60 a barrel for WTI and \$64 for Brent in 2018.

At Davos, Saudi energy minister Khalid al Falih said he remained concerned about the market situation: "I'm still anxious about the fragility of the market (and) about the potential black swans that may spring in front of us. By and large, we are on our way, but we are not there yet."

The minister urged global oil producers to extend their cooperation beyond 2018. He also raised the possibility of a new form of agreement rather than continuing with the same level of production cuts. He added: "I think there is an acceptance that we need to extend this framework of OPEC and non-OPEC cooperation, in one way or another, beyond the current agreement."

The current deal, struck by OPEC and 10 other allied producers, is scheduled to last throughout the calendar year. It is thought to have supported the recent oil price rally and helped to clear a global supply overhang. Robust demand in China, India and the U.S. — as well as the ongoing production cuts from OPEC and its allied producers — could help to rebalance the oil market this year.

III Other economic Developments

1) Saudi economy: On 1 January, Saudi Arabia announced a SR 978 billion (\$ 261 billion) budget for 2018, describing it as the largest budget in its history in terms of spending.

The budget, which in the past has been 90 percent dependent on oil revenues, is this year not more than 50 percent based on revenue from oil. The remainder is 30 percent from non-oil revenues, 12 percent from public debt and 8 percent from government funds.

On 23 January, as oil prices rise, the International Monetary Fund raised its economic growth forecasts for Saudi Arabia. Gross domestic product will likely grow 1.6 percent this year, compared to an earlier forecast of 1.1 percent. The IMF also revised its 2019 economic growth forecast to 2.2 percent from 1.6 percent. The government expects GDP to grow 2.7 percent this year.

2) VAT introduced: On 1 January, Saudi Arabia and the UAE introduced a value-added tax (VAT) rate of 5 percent, making them the first states in the region to introduce an additional tax for most goods and services, including food and clothing, as well as water and electricity bills. Analysts forecast that the added 5 percent tax hike could see the Saudi Kingdom and UAE raise a combined amount of \$21 billion in 2018 alone, equivalent to around 2 percent of gross domestic product. The UAE Finance Ministry said that VAT returns would go towards “infrastructure development ... (to) upgrade public services ... and boost UAE economy competitiveness.”

In Saudi Arabia, the new tax measures coincided with a steep hike in the price of gasoline — the second such rise in as many years. The new fuel duty saw the price of high-grade petrol rise 127 percent, from 0.9 riyals (\$.024) per litre (the equivalent of around \$1.09 per gallon) to 2 riyals. The price of low-grade petrol, in turn, rose 83 percent, from 0.75 riyals per litre to 1.37 riyals.

(The views expressed are personal)
