

HIGHLIGHTS

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- India in the Gulf

Major Political Developments

1) Prime Minister Modi's visit to Iran

THE HIGHLIGHT OF THE LAST fortnight was the visit of Prime Minister Narendra Modi to Iran, capping his earlier visits to the Arab Gulf states of UAE and Saudi Arabia. During the visit, the agreement for India to invest in the **development of Chabahar port and the tripartite trade and transit corridor pact between India, Iran and Afghanistan** were signed. These agreements open the door for India to access Afghanistan from Chabahar port and, with Iran, contribute to its economic development and political stability. The planned trade and transit corridors will in time also be extended to Central Asia and Russia, opening up this region for energy and economic linkages with India. India and Iran have also agreed to enhance their defence and security cooperation to combat terrorism.

2) "Justice" for 9/11 victims

ON 17 MAY, THE US Senate passed the "Justice Against Sponsors of Terrorism Act" which enables family-members of victims of terrorism to sue foreign governments and their officials in US courts. This opens the door for victims of the 9/11 attacks to sue the Saudi government and its officials. Saudi commentators have condemned this measure as being politically motivated, while asserting that there is no concrete evidence to implicate the Kingdom. The Bill is still to be passed by the House, but after that it is likely to be vetoed by the President. The bipartisan sponsors of the Bill are confident that after the veto, they will still be able to raise the required two-thirds vote in the Senate to over-ride the veto.

The passing of the Bill has focused fresh attention on the classified 28 pages of the report on the 9/11 attacks of the joint Senate-House intelligence committee that had published its findings in December 2002, but had held back 28 pages of its report on national security grounds. Family members of the 9/11 victims firmly believe these pages will reveal the complicity of the Saudi government and/or its senior officials in the attacks. It is generally believed that, while the pages may not directly implicate the government, they may point the finger at Saudi charities and rich private donors.

As an aside and possibly in response to threats last month from high-level Saudi sources that the Kingdom could withdraw its reserves of \$ 750 billion from US financial institutions if it were to be targeted in 9/11-related litigation, the US government has revealed that Saudi direct treasury holdings in the US amount to a mere \$ 116.8 billion, which is just 20 percent of the Kingdom's total foreign exchange reserves of \$ 587 billion. This has led to speculation that Saudi Arabia is holding considerable indirect debt in the US Treasury or it could be maintaining funds with the Federal Reserve Bank of New York or elsewhere, or it may own other securities that do not show up in the Treasury figures, such as stocks, derivatives or non-government debt.

3) Saudi-UAE Coordination Council

IN A SURPRISE MOVE, Saudi Arabia and the UAE announced on 16 May that they were setting up a coordination council in order to “intensify bilateral cooperation through continuous consultation and coordination” in different areas. This agreement follows discussions between King Salman bin Abdulaziz and Crown Prince Mohammed bin Zayed in Jeddah.

An editorial in the Dubai-based *Khaleej Times* placed security at the heart of this council, specifically mentioning “differences between neighbouring states”, the “mushrooming of militant groups”, and developments in Yemen, Syria, Iraq and Libya, as providing the context for this agreement. The editorial also spoke of the need for the two countries to be “on their guard, and stop any mischief from unscrupulous elements” and to discuss different subjects frankly to promote regional stability and security. Apparent differences in priority and approach between Saudi Arabia and the UAE in regard to Yemen, which have included a UAE initiative, with the US, against Al Qaeda in south Yemen, may have led to this council.

4) Yemen peace talks

PEACE TALKS RELATING TO YEMEN, taking place in Kuwait under the auspices of the UN envoy, Esmail Ould Shaikh Ahmad, continued to exhibit deep differences between the contending parties on fundamental issues. Essentially, the government side, representing President Abd Rabbo Mansour Hadi, presently functioning from Riyadh, has been insisting that the president head the national security council, and the Houthis surrender their weapons to this council and withdraw from all cities occupied by their forces. Reflecting the deep mistrust between the two sides, the Houthis reject weapons surrender and withdrawal and insist on the setting up of a government of national unity in which they would have a place. With this impasse, the government team suspended its participation in the talks on 17 May, but did not leave Kuwait. Later, following a meeting Hadi had with the UN secretary general and the Amirs of Kuwait and Qatar, the government delegation agreed to re-join the talks.

At month-end, the UN envoy had ended face-to-face discussions between the two contending parties and begun separate meetings with experts on both sides. The UN envoy has also proposed setting up an economic rescue body for Yemen, though details are not yet available.

In Yemen itself, while violence continues on the ground, mainly from jihadi forces, the head of UN humanitarian operations has warned that 7.6 million people in the country face famine conditions.

5) The Syrian imbroglio

WHILE THE CESSATION OF HOSTILITIES that started in February is still in position, the country continues to experience widespread conflict and violence. Elements of the Islamic State [IS] attacked a hospital on the Mediterranean coast, President Bashar al Assad’s heartland, in which nearly 160 people were killed. Separately, US-led special forces, Kurdish forces and multi-denominational militia, grouped under the umbrella “Syrian Democratic Forces” [SDF], are **attacking the IS “capital” of Raqqa**, in order to match the Russian and government success in capturing Palmyra in March this year. Not to be outdone, IS forces have been attacking Kurdish positions at the Syria-Turkey border, and have made some territorial gains as well.

The Russians have now responded with a “surge” of their own, targeting the Saudi- and Turkey-backed Islamic Front and Ahrar al Sham, both of which are seen as the “moderate opposition” by the US. Having failed to get these outfits branded as terrorists, the Russians seem to have decided to eliminate them militarily.

Peace talks in Geneva have remained suspended since end-April as the two sides are divided on the issue of Assad’s political future in his country; and not likely to be resumed for another two or three weeks.

The IS is also under pressure in Iraq, with the national army, backed by militia and US-led air support is seeking to recapture Fallujah, which has been under IS control for two years. In both Raqqa and Fallujah, there are deep concerns about the safety of thousands of civilians trapped in the two cities.

The Oil Scenario

OIL PRICES REMAINED AROUND \$ 45/barrel all through the last fortnight, peaking at just above \$ 50 on Thursday, 26 May, becoming 80% above the low of \$ 27/barrel in February; they then went to below \$ 49 the next day. The main cause for the hike was the wildfire in Canada’s oil-producing Alberta province. The fire began on 1 May and quickly shut down many of the region’s oilfields and pipelines, reducing Canadian production by 1.2 million barrels per day (mbd). Canada exports about 3.5 mbd to the US, which is mainly sour and heavy.

The fall in Canadian production has led to a significant dip in US inventories and raised the prospect of increased US imports, if the Canadian shortfall persists. US crude inventories are said to have fallen by 4.2 million barrels in the week ending 20 May.

At the same time, US shale oil production in June is expected to fall for the eighth consecutive month, with analysts forecasting that total US output would reduce by 113,000 b/d to reach 4.85 mbd in June. Supply disruptions have also occurred in Venezuela, Libya and Nigeria, mainly due to civil conflict in the latter two countries. The small boost in prices is being seen as a vindication of the position taken by the GCC producers to avoid production cuts and focus on retaining market share. The OPEC meeting in Vienna on 2 June is not expected to reveal any new policy approach.

Separate from the Canadian problem and fall in US production, on the positive side there were indications of increasing demand from India and other emerging markets, so that the oil market even showed a deficit; analysts noted that market rebalance was taking place faster than they had predicted. However, generally observers are cautious, fearing that the price rise may not be sustained if global economic recovery remains elusive.

The Non-oil Sector Economic Situation

MOODY'S HAS DOWNGRADED the ratings of Saudi Arabia, Bahrain and Oman, while retaining the ratings of Abu Dhabi, Kuwait and Qatar. Ratings of Oman were lowered to Baa1 from A3, while those of Bahrain were lowered to Ba2 from Ba1. Kuwait and Qatar were affirmed at Aa2, but with a negative outlook. Abu Dhabi's rating was retained at Aa2, with the prediction that its budget deficit this year would be 9%.

Saudi ratings have gone from A1 to Aa3, noting a "material deterioration" in its credit profile, caused by a combination of low growth, high debt, and fewer domestic and external buffers, all of which have left the Kingdom "less well positioned to weather future shocks". Moody's predicted a budget deficit of 14.9% this year, similar to last year. It noted that, while economic reforms were underway, they were still at an early stage.

The IMF has predicted that **Saudi Arabia will have a fiscal shortfall of \$ 900 billion through to 2021**. In order to avoid tapping its own reserves, the Kingdom has indicated that it will sell its bonds in the international market to finance its budget deficit; this could occur as soon as after Ramadan [5 July]. Saudi Arabia will be following Abu Dhabi and Qatar in this regard: the former had raised \$ 5 billion last month in a Eurobond sale, while Qatar announced on Thursday, 26 May, that it had sold \$ 9 billion in Eurobonds.

On the positive side, the **UAE was well ahead of its other Gulf Cooperation Council [GCC] partners in regard to employment growth**. It registered an 18% growth this year over last year, while almost all others showed negative figures: Qatar—21%; Saudi Arabia—14%; Kuwait—3%, and Oman—2%; only Bahrain showed a modest 5% growth. Overall, while banking and financial services, advertising and marketing, media, public relations and entertainment, education, trade and logistics, and hospitality have been hard-hit in terms of employment, there are positive trends in regard to healthcare, food, textiles, jewellery and customer services. Local surveys have also indicated that the **UAE remains the most attractive centre for entrepreneurship and innovation**, particularly in areas such as IT, retail, healthcare and professional services.

The UAE is also ahead of its GCC partners in regard to projects awarded, mainly in Dubai. In the first quarter of 2016, Dubai awarded projects valued at \$ 10 billion, and is expected to award projects valued at a total of \$ 36 billion in the entire year. This compares favourably with Qatar which awarded projects valued at just \$ 1.6 billion in the first quarter of this year. Overall, projects awarded in the GCC this year are expected to total \$ 120 billion, well below projects of \$ 165 billion awarded last year.

As the month ended, the Dubai government announced that its **"Smart Happiness Index" had revealed customer satisfaction with government services at 89%**. This was the result of a survey covering two million people and 38 government departments, having 328 outlets. Dubai Customs were named the best government entity; other departments such as the road authority, the water authority, the knowledge authority, Dubai Courts and Dubai Police also did well in the survey under different criteria.

India in the Gulf

1) **Indian Defence Minister Manohar Parrikar visited Oman and the UAE** to boost defence-related ties with countries with which it already has "strategic partnerships" in place. The minister's focus in both countries was

to discuss the specifics of regional defence and security, with special attention being paid to humanitarian and disaster relief operations, hydrographic surveys, joint training and exercises, and joint defence production.

- 2) The defence minister's visit to Oman coincided with the **visit of three Indian naval ships** on 21-24 May. These ships conducted exercises with their Omani counterparts in regard to combatting maritime terrorism and piracy. These ships had visited Dubai earlier in the month.
 - 3) According to press reports, **Tata Motors** are discussing with an Iranian manufacturer, Khodro Company, the possibility of setting up a **joint venture in Iran to assemble its cars**, Tiago, Bolt and Zest. Initially, the plant is expected to roll out 100,000 vehicles per year, which will be increased over time. Production could commence as early as 2018.
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(The views expressed are personal)