



The Gulf: The next generation

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Many of the Gulf Cooperation Council (GCC) states seek to confront Iran's regional aspirations, bolstered by support from Washington. This rivalry with Iran will fuel sectarianism in the broader region, including the conflicts in Syria and Yemen. However, disagreement exists between Saudi Arabia, Bahrain, and the United Arab Emirates (UAE) on one side, and Qatar on the other. Some Gulf states' strong economic ties to Iran will make it difficult to hold a single line. Future leadership changes and radical economic adjustments will further challenge unity within the Arab Gulf region.

Rising personalities

It is a good time to talk about leadership in the Gulf given radical changes in Saudi Arabia and the UAE. Mohammad bin Salman, Deputy Crown Prince of Saudi Arabia and Mohammad bin Zayed, Crown Prince of Abu Dhabi, are two young and charismatic leaders challenging the traditional methods of Gulf leadership. They are less accountable because they have swept aside the traditional informal consultation process before making major decisions. Previously, princes around the country would consult their people before the king made a decision. Now, that way of doing things has receded. They are also less predictable because abandonment of the consultation process means that few domestically or internationally know what to expect.

In Saudi Arabia, for example, the war in Yemen, civil servants' pay cuts, and the siege of Qatar appear to have come out of the blue. In the UAE, intervention in the Yemeni and Libyan wars followed a similar line. The continuation of these changes would introduce the leaders as all-powerful lifetime presidents as opposed to traditional Gulf monarchs. There is a risk that this change will lead to greater unrest from populations that feel even more disenfranchised than before. With US President Donald Trump dialling down Washington's human rights agenda, this unrest could be violently suppressed.

In Saudi Arabia, the next royal succession will be a crucial moment. If Saudi Crown Prince Mohammad bin Nayef becomes king as planned, he may curtail Mohammad bin Salman's power and restore more traditional patterns of rule. If Trump is replaced by a president who is less focused on ties to Saudi Arabia and the UAE, those countries may feel less confident in bold policies at home and abroad. However, the current process of power consolidation may be difficult to reverse. It is also uncertain whether the two princes will continue to work together, or whether rivalries will emerge. The latter may be more likely.

Each prince seeks a leading regional role, and the two differ on a number of key issues. In Yemen, for example, while Saudi Arabia's position is that the country must remain united, the UAE favours the south gaining a measure of independence. This is designed to stop the Islah party associated with the Muslim Brotherhood from taking power in Yemen.

At the moment, the Gulf states' ruling personalities are leading the way, while institutions take a back seat. However, these changes in leadership style, and the ensuing Qatar crisis, are unsettling for wider Gulf Arab populations. The perception of enduring and stable leadership in the Gulf has suddenly been removed.

Economic aspects

Saudi Arabia, Bahrain and the UAE are using economic pressure in pursuit of a political result, trying to extract concessions from Qatar through extreme measures. This dispute may also cause worries in energy markets, as Qatar provides roughly 30% of the world's liquefied natural gas (LNG) supply.

To some degree, this crisis may be symptomatic of enduring low oil and gas prices, which have forced reforms within the Gulf economies. Falling natural gas prices have affected Qatar's national budget, in particular. Qatar imports about 30 billion dollars of goods per year, with nearly 20% arriving from other GCC countries. Many of Qatar's basic goods such as food come from or through Saudi Arabia and the UAE, though Qatar has already arranged to import these goods by air from other countries. Many construction materials also come across the border from neighbouring Gulf states. Contractors in Qatar may soon have trouble procuring materials for their construction projects, an issue that could affect timelines for the 2022 World Cup preparations.

Qatar exports 860,000 barrels of oil per day, much of which is put on tankers that also call at other points in the GCC. The extent of the blockade is unclear: Qatari ships are banned from boycotting states' waters, but foreign ships carrying Qatari goods have so far found little trouble. Qatari ships often rely on Fujairah for refuelling, though they may be able to refuel in Oman. Qatari LNG exports have so far been unaffected, and the UAE is still dependent on the Dolphin natural gas pipeline from Qatar for nearly 30% of its natural gas needs. Gas transfer through this pipeline has continued, although these supplies could be under threat if the crisis escalates.

Oil and gas prices have not reacted to the standoff. South Korea may be most nervous, given that roughly 36% of South Korea's natural gas supplies come from Qatar. Importers could be lining up alternative sellers. The United States and Australia may be able to provide natural gas in the event that flows from Qatar are interrupted. In addition, the development of a spot market over long-term LNG contracts may give buyers an advantage over Qatar in upcoming renegotiations.

Long-term economic reforms will trouble all the Gulf countries, which are being forced to consider subsidy cuts and new taxes. Expatriate workers from south-east Asia and non-oil Arab states may find their jobs in jeopardy through these reforms. Qatar may need to dismiss large numbers of foreign workers if its economic position worsens.

Sources of the crisis

The core problem lies between Qatar and the UAE's leadership in Abu Dhabi. The main grievance is Qatar's support for Muslim Brotherhood-linked groups throughout the region. The UAE sees the Muslim Brotherhood as an existential threat to the Gulf states. It believes that in 2013 a local Muslim Brotherhood offshoot plotted a coup. Abu Dhabi holds that Qatar's support for the Muslim Brotherhood and related organisations across the region has compromised its internal stability. The dispute does not revolve around Islamic State, though that issue provides a solid rallying point for international allies such as the United States. While there are accusations that the Qatari government has turned a blind eye to its citizens funding salafi-jihadi groups, this is a common problem throughout the Gulf.

Saudi Arabia has separate complaints. Qatar's relationship with Saudi Arabia has been tense for some time, given the former's rising wealth and power in the region. Saudi Arabia resents Qatar's increased influence in recent decades after discovering major natural gas reserves. The Saudis further disapproved of Hamad bin Khalifa Al Thani's overthrow of his father in 1995, finding that it set a bad precedent. Qataris believe that Saudi Arabia worked to produce a counter-coup in Qatar. Qatar's hosting of a US military base is designed to ward off not only Iran, but also Saudi Arabia. The United States has not sided with Saudi Arabia and the UAE as the countries' leaders assumed it would, but has rather called for de-escalation.

Bahrain holds historical and tribal grievances toward Qatar, as some members of the Bahraini ruling family see Qatar's Al Thani family as usurpers. A territorial dispute over the Hawar Islands and Qatar's subsequent control over territories that turned out to hold significant quantities of natural gas also plays into Bahraini bitterness. However, Bahrain is too small to spur a major confrontation with Qatar on its own.

This current episode will likely damage the GCC as a whole, showing that this typically stable part of the Middle East is vulnerable and presents more risk than many firms have previously believed. However, the dispute is mostly among a small group of elite leaders. It is not necessarily a conflict that has galvanised the countries' populations against one another. Families in the region tend to be spread among many different countries, and there is a significant constituency across the Gulf that would like to see the conflict calm down. However, leaders are not yet willing to compromise. These new leaders appear eager to flex their muscles and differentiate themselves from their predecessors.

The United States argued that the regional dispute is hindering the war against Islamic State. However, economic costs are so far low. In 2014 a similar dispute led to Qatar expelling some Islamists. Larger gestures would be needed to settle the current dispute, and each Gulf leader will need to be able to claim victory to appeal to their own constituencies.

Q & A Session

Regime change

Regime change in Qatar is not an impossible scenario, given the many coups and abdications the country has seen in the past. Some UAE diplomats have mentioned regime change, saying that the country would not look upon it unfavourably. However, this dispute has endured over many years and survived multiple Qatari leaders. A belief that Hamad bin Khalifa Al Thani would fall in line with the rest of the region proved false, showing that leadership change will not necessarily lead to the other Gulf states' desired outcomes. Attacking the Qatari royal family may build dissent in Saudi Arabia against Mohammad bin Salman, as some opponents view him as impetuous.

MBS vs MBN

There is a rivalry in Saudi Arabia between Crown Prince Mohammad bin Nayef and Deputy Crown Prince Mohammad bin Salman. The two differ greatly in both outlook and style. While Mohammad bin Nayef is quiet and conservative, Mohammad bin Salman is more outgoing and amenable to interviews. Mohammad bin Nayef still commonly appears beside King Salman. There is no evidence that Mohammad bin Salman has found success in his endeavors to replace Mohammad bin Nayef as Crown Prince. Mohammad bin Nayef may be sitting back and letting Mohammad bin Salman's rash decision-making sink his chances. Stagnation of the Deputy Crown Prince's economic reform plans could similarly damage his popularity. His political future will be in significant doubt if Mohammad bin Nayef becomes king.

Trump

Saudi Arabia and the UAE may be taking a risk by putting their trust in President Trump given uncertainty in US politics. Mohammad bin Salman and Abu Dhabi Crown Prince Mohammad bin Zayed both get along well with Trump. The appointment of a brother of Mohammad bin Salman as ambassador to Washington implies that the royal family wishes to have a direct line to the White House.

Effect on Europe

European companies invested in Qatar, and particularly the 2022 World Cup, will need to consider future supply issues. The Qatari sovereign wealth fund is a major investor in real estate abroad, including in London. Current measures should not impact Qatari foreign investments.

Qatar is among the most indebted countries in the GCC, and the country's credit rating could be threatened by the current crisis and falling natural gas prices. It is not expected that the current dispute will threaten LNG supplies, though any interruption of gas exports would shift international markets. Qatari LNG constitutes a small proportion of Europe's natural gas consumption and could be replaced by orders from elsewhere.

The regional dispute may not connect directly to Europe's relations with Iran. European businesses will continue to see Iran as a new market with unmet needs and demand.

Russian role

Divisions in the Gulf open opportunities for international powers to increase their influence in the region. Russia's key interest in the Gulf has been the development of a weapons market. Russia also wishes to coordinate with Saudi Arabia on oil policy and with Qatar on gas. Moscow is unlikely to take sides in the dispute. Despite claims that Russians may have been involved with the hacking of a Qatari news site that sparked the crisis, the Russian state's role is unclear.

Turkey

Turkey's scepticism of the UAE and ties with Qatar are likely to outweigh its affinity for Saudi Arabia in the current dispute. Turkey is the main country where a Muslim Brotherhood-associated party is in power. Supporters of Turkish President Recep Tayyip Erdogan believe that Emirati intelligence had a hand in last year's attempted coup. Though Turkey already had plans for a military base in Qatar, its revised proposal will be larger, including several hundred troops and border monitoring capabilities.

Sectarianism

King Salman and his son seek to make Saudi Arabia a regional superpower, and while the geopolitical power struggle between Riyadh and Tehran continues it is likely that sectarianism will be a perpetual issue. This may entail Saudi Arabia championing its leadership of Sunnis across the region. Even if Saudi Arabia and Iran were to reconcile, the effects of this sectarianism would linger.

Qatar's negotiation for the release of hostages from Iraqi militia units constitutes another grievance in the current dispute. Qatar is said to have paid substantial sums to Iran, Shia militias in Iraq and an al-Qaida affiliated group in Syria. Saudi Arabia may be seeking to punish these actions.

Bahrain

Bahrain is economically dependent on Saudi Arabia, receiving most of its oil revenues from a shared field. Bahrain is heavily underwritten by Saudi Arabia and faces enduring austerity that may cause unrest among the large Sunni minorities that have so far been loyal to the ruling family. Shia, who form the majority, are largely repressed and jailed in Bahrain.

Mediation

The Kuwaiti attempt at mediation has failed so far. Mediation from a major outside power, such as the United States, will likely prove more decisive than regional efforts. If the crisis does not abate, a worst-case scenario could include Saudi military action against Qatar to achieve concessions.