

“THE GULF IN 2023: CHALLENGES AND PRIORITIES”



KEY POINTS FROM A WEBINAR HELD BY GULF INTERNATIONAL FORUM



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OVERVIEW

As the Russian invasion of Ukraine enters its second year, the conflict has also affected political and economic issues in the Persian Gulf. The rapid increase in oil and gas prices in the aftermath of the invasion has come as a boon to the GCC states, giving some of them a sizable budget surplus for the first time in years and easing pressures for economic reform. High oil and gas prices have also increased the Gulf’s strategic importance, giving its governments greater stature in international affairs.

In 2022, both the United States and China have taken high-profile visits to the Gulf, encouraging GCC leaders to lower oil prices and increase strategic partnership. Each of the GCC capitals, and Riyadh and Abu Dhabi in particular, have used their newfound status to seek concessions from the two superpowers, for purposes of advancing their own interests.

At the same time, Iranian assistance to Russia during the conflict – providing the Kremlin with Iranian-made missiles and drones – has dashed early hopes that the United States and Europe would attempt to renegotiate the JCPOA in order to allow Iranian oil to flow once more. Instead, Tehran’s crackdown on its ongoing protest movement has made the agreement politically more costly – albeit still desirable, in the West.

Finally, in 2022, negotiations between Iran and Saudi Arabia have also failed to make progress in resolving the two rivals’ longstanding disputes, although further negotiations are planned for the coming year.

In a GIF webinar, chaired by Ambassador Patrick Theros, a panel of regional experts speculated on what might be instore over a wide-ranging number of issues for the Gulf states in 2023.

KEY POINTS MADE BY THE SPEAKERS

1. **ALIA MOUBAYED** (*Managing Director, Jefferies*)

- For the GCC, in the aftermath of the Covid pandemic, 2023 will start from a solid base after some robust growth in the non-oil sectors that complimented significant windfalls in oil prices.
- The oil windfalls further allowed for fiscal surpluses providing the GCC states with levers to deviate from down-sides on domestic risks and allowed countries like Oman to improve their disposition and reduce their vulnerabilities. Oman through fiscal discipline, is one of the stars. With improved management strategies, it has allowed vulnerabilities to become seriously reduced.
- Main liabilities will be for states like Bahrain with regards to their debt prospects.
- Challenges in 2023 for the Gulf states will inevitably be linked to the global economy and global financial considerations, especially as they might affect the non-oil sectors in the GCC that is reliant on international borrowing.
- Potential problems here, could challenge the strong recovery that was recently witnessed in 2022.
- On Iraq, while rising oil prices has led to a huge surplus, economic ties with Iran that is constantly monitored by the US has led to currency issues for Iraq leading to the removal of the governor of its Central Bank.

2. **DR. DAVID POLLOCK** (*The Bernstein Fellow and Director of Project Fikra, The Washington Institute*)

- The general prognosis is for a calmer atmosphere in 2023 for the GCC states.
- This is complimented by the fact that the US government is also trying to improve its relations with these states despite some domestic political criticisms.
- Nonetheless, the GCC states continue having lingering doubts about the reliability of American commitments.
- As such they are likely to try and want to hedge their relationships and cultivate alternative ties, which are not just economic and might possibly have strategic and diplomatic overtones with both Russia and China.

- This is likely to be an issue in American ties with the GCC, though the US is prepared to live with that kind of a diversification.
- With the exception of some 'hi-tech' issues, the US will not force the GCC to make any choices.
- Based on this general picture, there are 2 areas where the US is likely to be more watchful in 2023:
 - **1. Oil:** Whether the US will force the GCC and especially Saudi Arabia (KSA) to make cutbacks in oil production in order to keep prices low and more stable is something that is still unclear. The Biden Administration has tried not making this an issue.
 - But it has turned out that that the KSA was right about what effect production cuts would have on global oil prices at the same time that US concerns in 2022 (possibly motivated by political expediency especially in advance of the 2022 US congressional elections) have turned out to be misguided.
 - Thus, there is a sense in the GCC that they understand the global oil market just as well as the US, if not better.
 - **2. Iran:** Here there are a number of concerns:
 - **a.** The Nuclear issue and the fact that the JCPOA talks are at present almost dead. Although there is still some hope that they could be rejuvenated, nonetheless, whatever happens, Iran will hesitate as it has done in the past 20 years, crossing the nuclear threshold leading to weaponization. Hence, in the absence of Iran crossing the red line, it is unlikely that we will see a military/diplomatic crisis arising around this issue.
 - This is quite important given the fact that there is no visible 'Plan B' for dealing with this problematic situation.
 - **b.** Non-nuclear challenges posed by Iran also continue to remain urgent. Despite the fact that 2022 saw some positive movements between Iran and the GCC being enacted for purposes of calming regional concerns.
- Another prominent issue is the continuing issue of GCC-Israel relations and how they are likely to advance in conjunction with the Abraham Accords – especially those between Israel and the KSA - something that is unlikely to get anywhere in 2023 or anytime soon thereafter.
- Nonetheless, some steps forward , especially with US assistance, may be possible (depending on what the US is willing to give the Saudis).

- Public opinion in the Gulf States with regards to the future of the Abraham Accords has been divided, although the re-election of Netanyahu to power in Israel has without question exacerbated matters.
- In Iraq, the new government of PM Al Sudani has come out with an encouraging statement that it does not want US forces to leave the country, despite the huge presence of Iranian influence. This is perceived in the US to be a positive development.
- Also, Iraq mediation between KSA and Iran has been another positive factor in reducing tensions between the two states despite the fact that it has resolved nothing.

3. **DR. JEAN-LOUP SAMAN** (*Senior Research Fellow, the Middle East Institute of the National University of Singapore; Non-resident Senior Fellow, the Atlantic Council's Scowcroft Middle East Security Initiative*)

- Looking at 2022, it has to be said that it was generally a good year for the GCC with the exception of the ongoing situation in Yemen (although even there, a cease-fire had lasted for some 6 months).
- Thus, keeping the same momentum for 2023 would be a positive factor, bearing in mind that previous tensions such as those between KSA-UAE and Qatar have now been resolved and set aside and replaced by dialogue and visits that promise all kinds of cooperation (even with countries like Turkey).
- At the same time talks with Iran had also existed and though they had led to no meaningful outcome, they had nonetheless been instrumental in significantly reducing tensions, especially between Iran and KSA.
- Implications of the new Israeli government for give rise to fears that normalization of ties between Israel and the KSA will not happen anytime soon.
- Further building of settlements in occupied territories and a reality check over the creation of a Palestinian state will no doubt exacerbate this situation, as emphasised by the Saudi Foreign Minister during his recent talk at Davos.
- Even for the UAE, relations with Israel are likely to become more difficult as a result of Netanyahu's return to power in his country. Any anticipated problems in this regard have nothing to do with Netanyahu but with some members of his cabinet such as Belzalel Smotrich and

Itamar Ben-Gvir, who are the main advocates of building further settlements in the West Bank.

- Finally, on the subject of great power rivalry in the Gulf, it is important noting that last year started with US-UAE suspending talks on the F-35s, which was supposed to have been one of the side benefits of UAE signing up to the Abraham Accords.
- As a response, the UAE went for a Chinese training jet – not for compensating the F-35 but for sending a clear political message.
- The year 2022 also ended with Chinese President Xi’s state visit to KSA (which sent its own messages) – although at the end of the day, that visit projected an image more indicative of what GCC wants than what the Chinese desire (the Chinese at this stage wanting nothing more than energy while the US gratuitously provides the security needed).
- There is a danger on the part of some GCC states – unlike Qatar and Oman who sit on the fence or Bahrain and Kuwait who act most conservatively – to somehow overplay their hands, especially in the absence of a collective position regarding both Russia and China.
- At the same time, Russia-Iran relationship has not been a major issue for the Gulf States as it has no direct bearings for them.
- On Russia, the GCC believes that the Ukraine war is not their war and as such they should not be sanctioning Russia whom they do not wish to offend or China, with whom they have greater ambitions.

