GIF’S Annual Forecast 2020

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Gulf International Forum (GIF) presents our 2020 forecast. As the new year is upon us, please read GIF’s projections for what 2020 may bring to the Gulf region. Regardless of what may be in store for 2020, we look forward to writing, analyzing and reporting on future events with the same level of impartiality and candor that typified 2019. In this forecast, please find outlined several of the most visible trends impacting the region and continue reading to see how we predict the Gulf will influence these trends.
Years-long conflicts in the region, including the war in Yemen and GCC Crisis, are expected to de-escalate, while domestic unrest in Iraq and Iran may continue.

Half the rulers of the GCC States are of an advanced age, making scenarios of succession a relevant topic.

Other than Iraq, Kuwait, and Qatar, the projected $60-$65 oil price will not be sufficient for the other GCC states (in addition to Iran) to reach a fiscal breakeven.

OPEC+ agreement will probably remain intact at least until the summer of 2020.

Increased investment in non-oil sectors is expected for each GCC state, mainly in the domains of tourism, services, fintech, and banking.

Protests in Iraq will continue, potentially leading to significant changes in the PM position, necessitating new elections and a possible change to the parliamentary majority.

Iran will probably weather its economic storm and manage to survive sanctions, however the possibility of accidental hostilities with the U.S. remains high.

Kuwait, Qatar, the UAE, and Saudi Arabia are expected to increase government borrowing.

The 2020 election campaign and ongoing impeachment trial will distract President Trump; the President’s instinct is to withdrawal from the region, and he may well indulge it.

Although the U.S. is expected to be the GCC states’ main security guarantor, the perception of the U.S.’ declining interest in the region will continue to motivate the GCC states to diversify their foreign alliances.
SAUDI ARABIA

Over the course of 2020, Saudi Crown Prince Mohammed bin Salman (MbS) will continue to address major issues that tarnished his international reputation in 2018-19. This includes, (but is not limited to) signing an agreement with Kuwait that ends the Neutral Zone dispute and allows oil production to resume; seeking a unilateral deal with Doha to lift the blockade of Qatar; and seeking an agreement with the Houthis to end the Kingdom’s military intervention in Yemen. As the de facto leader of the country, MbS will likely continue reshuffling his cabinet and palace inner circle to ensure continued control and his accession to the throne. While less likely, Saudi Arabia may also release some detainees to contain international media attacks. After statements and actions from the Saudi Prosecutor in late 2019, the Khashoggi Affair will continue to fade from public prominence.

On foreign policy, Saudi Arabia can be expected to take more calculated steps and reduce the adventurist decision making that has characterized the Kingdom’s foreign policy over the last few years. In light of the U.S.’ unwillingness to take military actions against Iran, Saudi Arabia will likely seek to engage Iran directly or indirectly to reduce tensions.

Demand for Saudi oil will stay low into 2020, at least for the first half of the year, but is projected to increase in the second half following a 2019 OPEC+ agreement to lower production. The agreement will remain in force into the new year so long as demand remains low. Both Russia and Saudi Arabia need oil prices to remain well above $60/barrel. However, we do not expect the price of oil to reach the $83.6 listed by the IMF for Saudi Arabia to reach a fiscal breakeven. Given regional uncertainties, we believe it unlikely that Aramco will be floated internationally in 2020.

Saudi Arabia’s non-oil sector is expected to grow in tandem with increasing non oil-sector revenues. This is expected to aide in lowering the Kingdom’s unemployment rate. To lower unemployment rates among Saudi youth in particular, the Kingdom will seek to accelerate Saudization, including by imposing new fees on the employment of expatriates. We expect Saudi to increase government borrowing and to announce new laws to encourage investments.

The G20 meeting in Riyadh in November 2020 will allow the Kingdom to showcase its efforts to improve the economy and may give Saudi Arabia an opening to reduce tensions with its neighbors.
The war in Yemen that first escalated on March 26, 2015 upon the Saudi-led coalition’s military intervention likely will de-escalate over the coming months as Saudi Arabia seeks an exit. Yemeni Ansarallah, also known as the Houthis, and Saudi Arabia are currently negotiating in Oman. If they can reach a deal, the blockade on Yemen is likely to be either fully or partially lifted. This could facilitate a comprehensive Yemeni dialogue between different Yemeni factions. The Houthis in the north and the Southern Transitional Council (STC) in the south have the highest stakes in the outcome of possible negotiations. Any deal reached between Yemeni parties would mark the end of the Hadi administration, with a new president or presidential council appointed for a period of governmental transition. The question of South Yemeni separatism remains an important issue in future talks.

The political upheaval in Kuwait caused by anti-corruption protests in early November will likely continue into 2020. We do not exclude the possibility of the parliament being dissolved before scheduled elections in November 2020. Kuwait will continue to maintain a neutral foreign policy in the region. Kuwait will continue its efforts to engineer a rapprochement between the GCC states and Iran. If the 90-year old Emir should abdicate in 2020, 82-year old Crown Prince Nawaf Al-Ahmed Al-Sabah will probably succeed his half-brother. In this case, Sheikh Misha’l Al-Ahmed Al-Sabah (half-brother of both Sheikh Sabah and Sheikh Nawaf) is likely to become the next Crown Prince.

Under pressure from the parliament, the newly inaugurated Kuwaiti government is expected to issue decrees to drive Kuwaitization plans and lower unemployment levels among nationals. A budget deficit is anticipated in 2020 unless oil prices rise well above $60/barrel. Meanwhile, Kuwait’s fiscal breakeven oil price according to the International Monetary Fund (IMF) is $54.7. Economic growth is likely to increase as a consequence of increased government spending.
Any potential de-escalation between Saudi Arabia and Qatar will drive a wedge between the UAE and the Saudi Kingdom. Abu Dhabi Crown Prince Mohammed bin Zayed (MbZ) will continue concentrating power among his closest associates, particularly his son Khalid, and his brother, National Security Advisor Tahnoun bin Zayed. This will position MbZ to ensure a smooth transfer of power should the ailing UAE President Khalifa bin Zayed no longer occupy the throne. In this case, MbZ will take the top job, with three names emerging as possible contenders for the title of Crown Prince: Foreign Minister Abdullah bin Zayed, National Security Advisor Tahnoun bin Zayed and the Head of State and Security, Khaled bin Mohammed bin Zayed. On another level, the UAE will seek to strengthen its regional presence, especially in the South of Yemen, but also in other countries, including Libya.

The UAE will work to increase its influence in Oman, particularly in anticipation of the possible transfer of power in Muscat. The UAE will continue to build on agreements recently reached with Iran to reduce tensions and avoid becoming embroiled in any hostilities.

The long-planned 2020 World Expo to be held in Dubai is expected to attract millions of visitors to the UAE between October 2020 and March 2021. This will be a major push for the Emirates economically, mainly as revenues of this international event are expected to reach $20 billion. Still, according to the IMF the oil breakeven price needed by the UAE is at $70.0, above what is predicted for 2020.
Oman’s internal political stability is linked to the continuity of Sultan Qaboos presiding at the top of the country’s political hierarchy. Should the Sultan pass away in 2020, we can expect increased internal tensions as his successor is unknown at this point. We believe the Sultan’s Special Representative and cousin through his Uncle, As’ad bin Tariq bin Taimour, to be the leading contender for the throne. Still, other top candidates include As’ad’s brothers: Haitham and Shihab bin Tariq.

Oman will play an important role in facilitating any possible agreement between Saudi Arabia, the Houthis, and Iran. While it maintains a neutral policy on regional issues, Oman is likely to play an active role, through Yemeni groups, at its border with Yemen. Oman will respond forcefully to the UAE’s efforts to control the eastern and southern Yemeni provinces, especially Al-Mahrah, seen by Oman as a national security threat.

The non-oil sector in Oman is expected to continue performing better than the hydrocarbon sector. Oman’s LNG sector will expand as the Sultanate is preparing to ramp up its LNG production by 2021. The necessary fiscal breakeven price listed by the IMF for Oman is $87.6, well above the projected $60-$65 range. The Omani government is also expected to propose additional legislations that would encourage local and foreign investment in the country to increase economic growth. The consistent expansion of the non-oil sector (mainly tourism, fisheries, mining, services, and e-commerce) leads us to predict Omani economic growth in the vicinity of 2.5%. However, all this depends on the continuity of government. Should Sultan Qaboos pass from the scene without a named successor, the resulting uncertainty may adversely affect the economy.
Internal political conflict within the ruling family will continue. This is expected to only intensify should the long-serving 84-year old Prime Minister Khalifa bin Salman (who left the country for medical reasons weeks ago) step down or pass away. Such a scenario will lead to internal squabbling over succession for a new Prime Minister. The Bahraini King’s youngest son, Nasser bin Hamad, has been strengthening his position within the royal family, and will continue acquiring additional powers. In 2020, Bahrain is also expected to continue to welcome and exchange official visits with Israel.

The economic situation for the smallest GCC state is expected to improve in the wake of fiscal reforms implemented by the government and the GCC’s financial aid program. This began in the latter half of 2019 and should continue so long as oil prices remain in the $60/barrel range, even though the IMF lists Bahrain as requiring a $91.8 fiscal breakeven price.
While some analysts predicted that the Gulf crisis would come to an end in 2019, its continuation in 2020 necessitates that Qatar remain cautious in its relationship with the blockading Gulf states. Its lack of trust will continue even if the crisis comes to a formal resolution sometime in the upcoming year. Saudi Arabia is leading the effort to mend relations quickly with Qatar, but will probably not rush to do so without the UAE. Regardless of any resolution of the crisis, Qatar will build new international ties and continue pursuing its independent foreign policy as it has since the start of the 2017 GCC Crisis, independent of other GCC states.

The Qatar Investment Authority will continue large scale foreign investment, however, the Qatari private sector and other government entities will concentrate more on internal investment, seeking FDI in the process. Doha will continue to accelerate the expansion of its LNG production and export capacity. This could probably jumpstart economic growth in Qatar to 2.5%. Even though oil exports are not major revenue for the country’s economy, the IMF’s fiscal breakeven price for Qatar is at $45.7, well below the projected price of oil for 2020. Doha is also expected to continue labor law reforms in order to diminish criticisms of its labor practices stemming from the massive infrastructure projects ahead of the 2022 World Cup and expansive gas production facilities.
We cannot discount the possibility of an accidental war with the U.S. Iran seeks to break the sanctions and ‘hawks’ in the U.S. administration keep pushing for decisive action.

The Iranian economy and its ability to survive U.S. sanctions will determine events in 2020, both domestically and internationally. The U.S will continue ‘maximum pressure’ to shut down Iran’s ability to export oil and attempt to bring the rest of the economy to its knees. However, given Iran’s experience at adapting to sanctions, 2020 may also see Iranians become more adept at mitigating their effect. We will also see further efforts by Europeans and other countries to help Iran lessen the impacts of the sanctions. Internally, if the economic situation worsens as expected, unrest like that seen at the close of 2019 may continue into 2020, as demonstrators’ protest corruption and mismanagement. We doubt the regime will satisfy complaints, but rather will continue harsh crackdowns on all displays of discontent.

Despite financial troubles, Iran will continue to work to maintain its regional position, especially in Iraq and Lebanon, two nations recently afflicted with turmoil and instances of anti-Iranian protest. This influence remains a major card to play in Iran’s dealings with the U.S.

Elections for the 11th Iranian Parliament scheduled to be held in February are predicted to witness less participation than those in 2016. Additionally, the Guardian Council is unlikely to grant candidate eligibility to some reformist members. The political environment of upcoming elections (characterized by allegations of corruption and mismanagement) could cause the reformist camp to lose some of their seats and possibly the parliamentary majority. This stands in stark contrast to the 2016 elections when optimism from the Iran Nuclear Agreement swept reformists to an easy victory.

As it relates to the JCPOA, 2020 will continue to see the slow death of the agreement. Iran will lower its commitment to the deal. While President Trump has no incentive to concede, the Iranians as well have no reason to acquiesce to the negotiating table. Tehran might look at the prospect of a Democrat beating President Trump in the 2020 American Presidential Election as a reason to hold out for at least a little while longer. In the unexpected event that negotiations do take place in 2020, they are unlikely to be fruitful, as heads of government in both nations share little in common as to their objectives. We cannot discount the possibility of an accidental war as Iran seeks to break the sanctions blockade.

Strictly in economic terms, Iran will continue to suffer under inflation and a deteriorating economic sector, as both the oil and non-oil sectors will shrink under the weight of sanctions. According to the IMF, Iran’s required fiscal breakeven oil price is $194.6.
Given the unrest that has occurred in Iraq through the close of 2019, the country’s political and economic status in 2020 will likely be determined by the ability to regain control over the country’s chaos. Therefore, Iraq faces multiple scenarios going into the new year.

One possible scenario could occur if parliament is able to select a new prime minister that is perceived by protestors as being in line with their demands, regardless of whether or not this is true at the policy level. Given that in the past three months the government has evidenced a willingness to concede to protestor demands, it remains a possibility that parliament will eventually select a neutral prime minister. Should this come to fruition, demonstrations can be expected to subside, giving the new government the chance to implement long awaited reforms. Still, the new PM would continue to battle political parties’ control over the parliament to implement reforms.

In a different scenario, the parliament will elect a new PM from among those already affiliated with one of the major political parties. Should this occur, protests will likely continue. In the best-case scenario, protestors may temporarily retreat from the streets, only to return at the slightest sign of failure by the new PM and his cabinet.

Regardless of who is the new PM, he will face the challenge of having his cabinet approved by a divided parliament. In both scenarios, the PM will face a challenge in getting the parliament to support his cabinet and create a process to fight corruption and lower the influence of political parties. As early parliamentary elections are expected in 2020, Iranian backed political parties (including PMFs allied MPs) are expected to lose some of their seats as a result of declining popularity after accusations of targeting activists.

On the security front, continued unrest in 2020 will compound the threats facing the country. Looming over this unrest is the possibility that ISIS will take advantage of Iraq’s current state to resume carrying out attacks.

Iraq is expected to witness an increase of competition between the U.S. and Iran within its territory, especially after recent airstrikes on the Kataeb Hezbollah militia in Iraq. There will be a push by Iran-allied Iraqi legislators to issue a law that would end U.S. military presence in Iraq. Although Iraq depends on U.S. support to keep ISIS at bay, Iraq does not want to become a proxy battleground between the U.S. and Iran. If push comes to shove, Iraq could expel the Americans more easily than it could the Iranians.

Economically, the IMF lists Iraq’s breakeven oil price at $60.3, in line with where we project oil price to hover in 2020.
2020 Election Campaign

Foreign policy rarely plays a major role in American elections, however recent revelations, such as the ‘Afghanistan Papers’ have given a renewed impetus to the small, yet vocal portion of the electorate passionate about ending what is referred to as endless wars. Even so, the Trump campaign will continue to focus on issues that appeal to their voters such as trade, withdrawing from foreign commitments, and undoing the achievements of the Obama administration. Trade issues play almost no role with Gulf countries other than an understandable desire to keep oil prices low. Democrats will not object on this subject. It does, however, create a dilemma for President Trump who hypes the very large arms procurements by the Kingdom of Saudi Arabia. Keeping the deals flowing (despite a series of bills passed this past summer) appears to account for Trump’s support for Saudi Crown Prince MbS and can be expected to be a guiding principle of the President’s election-year foreign policy toward the region. On a related note, in 2020 the President will continue to offer indirect support to the Saudi-led coalition in Yemen.

Iran presents a more complicated challenge for President Trump’s campaign. On the one hand, he has made undoing Obama’s JCPOA his signature regional issue. On the other, if he has not already done so, he will soon realize that his campaign of “maximum pressure” via sanctions could well push the Iranians into retaliatory actions that might unintentionally snowball into war. Problematically for President Trump, he has made avoiding another war in the Middle East his other signature issue. Both Trump and the Ayatollahs are so entrenched in their positions that only major outside intervention could motivate a compromise. Even if the President cannot point towards any Iran-related successes, we can expect the President to focus his rhetoric on “his” elimination of Islamic State leader Abu Bakr Al-Baghdadi as evidence of the success of his own war on terrorism.
Each of the frontrunners for the Democratic Party nomination have targeted Trump’s support for MbS, and in particular, the ill-fated Saudi war in Yemen, as a politically lucrative target. MbS’ outright denial of any involvement in the Khashoggi murder has given the Democrats a target that even the most pro-Trump Republicans in Congress show no willingness to defend. This will continue throughout the 2020 campaign. Many Democrats will continue to call for a realignment of the U.S. – Saudi relationship and in doing so anti-Saudi sentiment will continue to cement itself as part of the Democratic Party’s rhetoric. Whether these statements translate to actual policy in the event a Democrat is elected President in 2020 is a topic for next year’s predictions.

**Congress**

In 2019, efforts to turn the legislature’s reaction to the Khashoggi incident into congressional action against the U.S. – Saudi relationship and the War in Yemen were largely a failure due to President Trump’s veto. In 2020 the issue will likely take a backseat, as it has become clear the legislature and the executive branch are unwilling to compromise.

While not a headline-grabbing geopolitical issue, Congress has yet to approve funding in support of a U.S. pavilion at the 2020 World Expo in Dubai. In late 2019 the House of Representatives approved such a bill, however the Senate has yet to consider the topic. In 2020 the Senate may consider the funding. If not, given the temporal proximity of the event, the team responsible for executing the pavilion will work double-time to court private-sector funding in order to ensure that the U.S.’ representation at the event is not an embarrassment.