



SPECIAL REPORT:

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MIDDLE EAST FOREIGN POLICY RECALIBRATION ENHANCES ECONOMIC COOPERATION

A senior Emirati official's meeting with Turkish President Recep Tayyip Erdoğan and Qatari Emir Tamim bin Hamad at the end of August was a significant step toward thawing a multifaceted feud between these countries. Several developments and converging interests are pushing these sides closer. Ankara stands to gain from an economic perspective, Abu Dhabi and Doha are keen to avoid regional isolation and secure a place for themselves in the post-Trump and post-Afghanistan era. However, the path to reconciliation remains bumpy and fraught with uncertainty.

Turkish President Recep Tayyip Erdoğan and United Arab Emirates (UAE) Crown Prince Mohamed bin Zayed held a rare phone call on 31 August, in which they reportedly discussed bilateral relations and regional issues. According to the official Emirati news agency, WAM, the two leaders "reviewed the prospects of reinforcing the relations between the two nations in a way that serves their common interests and their two peoples". The call was preceded by a visit to Turkey by UAE National Security Adviser Sheikh Tahnoun bin Zayed, in the highest-level public visit by an Emirati official to Turkey in years. After a breakthrough visit to Turkey, bin Zayed was in Qatar on 26 August meeting with Tamim bin Hamad Al Thani with a similar aim of mending fences.

The regional rivalry between Turkey-Qatar and the UAE has been a dominant theme in Middle Eastern politics, looming in the background of regional crises in Egypt, Syria, Libya, and Tunisia. The countries found themselves on opposite sides of the 'Arab Spring', with Turkey (and Qatar) showing a marked preference for the rise of Islamist movements like the Muslim Brotherhood. The UAE and Saudi Arabia, meanwhile, have had a hawkish approach to the Islamist governments seeing them as an emerging threat.

While this visit is crucial for regional security and stability, these developments occur within the context of an ever more dynamic geopolitical and security environment enabled by the withdrawal of US leadership from the region, which asserted to Abu Dhabi the fragility and vulnerability of the wider regional order. These developments would require the UAE to become more pragmatic in forging networks and relationships across the region – if necessary, even with ideological adversaries in Qatar and Turkey.

However, PANGEA-RISK assesses that with political differences still running deep, countries are expected to focus on building economic ties and de-escalating, rather than resolving, an ideological rift that has drawn a fault-line through the region.

Growing Emirati isolation



UAE NATIONAL SECURITY ADVISER SHEIKH TAHNOUN BIN ZAYED MEETS WITH QATAR EMIR TAMIM BIN HAMAD AL THANI

The fast progress in the dialogue owes to overlapping priorities considering changing conditions in the region. The UAE's close ties with the administration of former US President Donald Trump enabled it to participate in the regional blockade of Qatar, as well as take greater military risks in Yemen and Libya, without fear of US retaliation. But since US President Joe Biden took office in January, the Emiratis have signalled an interest in shifting away from this more adventurous foreign policy in response to increased pressure from the White House and sustained criticism of Emirati behaviour from US lawmakers in Congress. Biden's victory and the AI Ula agreement in January that ended a four-year blockade on Qatar have now created new realities. As a result, UAE's allies, Saudi Arabia and Egypt, along with Turkey and Qatar, have been engaged in rapprochement efforts on several levels (see GCC: GULF REGION TAPS INTO SOVEREIGN WEALTH FUNDS TO ENSURE DEBT SUSTAINABILITY).

Both Egypt and Saudi Arabia have also improved their relations to some extent with Qatar's primary regional ally, Turkey. Saudi King Salman bin Abdulaziz and Turkish President Erdoğan have spoken directly, while their foreign ministers have continued to discuss bilateral ties. At the same time, Egypt-Turkey relations have improved. For the first time since Egypt's 2013 military coup, a Turkish delegation conducted exploratory talks with Egyptian officials in Cairo in May – talks that are expected to continue in the weeks ahead.

These developments heightened the likelihood of regional isolation for the UAE, particularly amid a widening rift between Saudi Arabia and the UAE over various bilateral and regional issues. UAE-Egypt relations also seem cooler than they once were. While Abu Dhabi remains influential in Cairo, there are concerns over its relations with Ethiopia, among other issues (see SPECIAL REPORT: PROSPECTS OF ANOTHER WAR IN THE HORN OF AFRICA).

Additionally, the international and regional dynamics in the post-Trump era are not suitable for Abu Dhabi, significantly minimising its role. Conversely, Turkey and Qatar are rising in the region and beyond, with the most recent example playing out in Afghanistan. While the Doha-based Taliban leaders are moving to the seat of power in Kabul, Afghan President Ashraf Ghani has fled to Dubai. Qatar has thus emerged as a winner and the UAE less of a player in Afghanistan. The UAE might be hoping to make up by improving ties with Turkey and Qatar, assuming that they would play an influential role in Taliban-controlled Afghanistan.

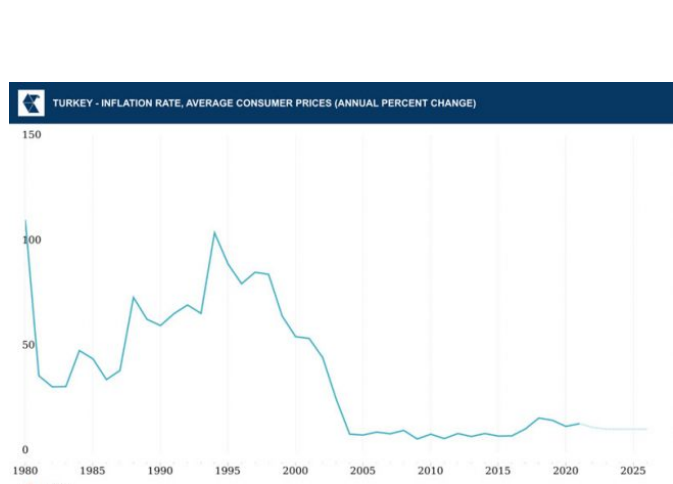
To cut its losses, avoid isolation, and secure a place for itself in the new regional game, Abu Dhabi is recalibrating its position vis-a-vis Turkey and Qatar and promoting itself as a constructive player. To give credibility to this message, Abu Dhabi tasked Tahnoun with this mission, prioritising the economy, rather than ideology, as a means of finding common ground. Tahnoun is on the Supreme Council for Financial and Economic Affairs, established in 2020. He oversees a huge business empire in the Emirates, chairing several major companies, such as Abu Dhabi Developmental Holding Company, the First Abu Dhabi Bank and Royal Group, among others.

MAP OF QATAR, UNITED ARAB EMIRATES AND TURKEY



Economic pragmatism prevails

The slow warming of Turkey-Qatar and UAE relations will likely improve some aspects of the countries' economies as they re-invest in one another. Now that Muslim Brotherhood-supported governments in Libya, Tunisia, and Egypt have either been overthrown or severely weakened, the Emiratis will likely continue to de-emphasise their focus on the transnational Islamic movement. This will create more room for cooperation, given that the Turkey-Qatar axis's support of the Muslim Brotherhood was previously a major point of contention.



Turkey and UAE now recognise their geopolitical tensions came at an economic price, heightened by the COVID-19 pandemic. That cost was felt particularly by Erdoğan in Turkey, where stubbornly high 19 percent inflation has driven up the cost of living and where state banks sold USD 128 billion in foreign reserves last year in an attempt to support the tumbling lira (see TURKEY: INCONSISTENT ECONOMIC POLICY AMID COVID-19 RESURGENCE DRIVES FRESH UNCERTAINTY). The problem has become so pressing that Erdoğan had to urge Libya's interim prime minister to repay USD 3.8 billion in debt to Turkish contractors in August. Although no agreement has been announced on investments, the two countries already have an economic platform to build on. Unlike Saudi Arabia, which maintains an unofficial boycott of Turkish exports, the UAE says it remains Turkey's largest regional trading partner.

In the wake of the Qatar-Gulf crisis, the volume of bilateral trade between Turkey and UAE fell from around USD 15 billion to around USD 7 billion in 2018. One main reason was Ankara's support for Doha during the crisis. The current volume of trade stands at around USD 8.5 billion, with around USD 2.7 billion balance of trade in favour of Abu Dhabi. Hence, in a post-COVID-19 period, the economic channel would be convenient for testing waters and reconciling. On 25 August, the UAE conglomerate International Holding CO announce it was to invest heavily in Turkey's health and agri-food industries while the sovereign fund Abu Dhabi Investment Authority appears to be willing to lend Ankara USD 875 million.



TALIBAN TALKS IN QATAR

With renewed access to Qatar following the lifting of the blockade, Emirati construction firms already appear ready to take advantage of the surge of projects that still need to be finished in Doha ahead of the World Cup, which the city is scheduled to host in November 2022. The warming of ties could also see the reopening of air links between Qatar and the UAE, which are key to connecting Doha to global tourism flows given that Dubai's airports are the region's largest transport hubs. Increased cooperation may also eventually see the return of Qatari investors and consumers to the UAE for the first time since 2017. Qatari investors were once a major source of income for the UAE's real estate sector. Qatari consumers also often frequented the country's luxury malls and hotels. But that business abruptly stopped during the blockade (see UAE: ON A STEADY PATH TO ECONOMIC RECOVERY).

Nonetheless, the full recovery of the countries' pre-blockade business ties will likely take more time and require further efforts by all sides to improve diplomatic relations. However, geostrategic pragmatism can only be temporary in nature. Political differences will be harder to overcome, as the fundamental ideological divergences remain the primary competition between Turkey-Qatar and the UAE. **K**

INSIGHT

The Taliban takeover of Afghanistan threatens to exacerbate regional divides and upset delicate balances, particularly between Gulf states amongst whom relations remain fragile. Notably, should Qatar adopt a more dominant role as a regional power broker, it risks straining recently revived ties with other Gulf states such as the UAE and Saudi Arabia.

MAP OF THE MIDDLE EAST AND AFGHANISTAN



Having provided a base to several Taliban leaders and hosted the talks between the US and the Taliban's Mullah Baradar and his compatriots, the Qataris feel they have a strong hand. Turkey, which also has close ties with Pakistan, believes that it can wield a degree of influence in a Taliban-ruled Afghanistan. The Turkey-Qatar axis, working in tandem with Pakistan, could turn out to be an important point of connection with the new Taliban regime.

Gulf states will likely adopt a pragmatic approach towards Taliban rule, whilst Saudi Arabia and the UAE will seek to use existing socio-religious and economic leverage to mitigate the threat of Islamist militancy. The US withdrawal will have sown mistrust in Saudi Arabia. For instance, a few Saudi officials have openly criticised the US withdrawal from Afghanistan, including former intelligence chief, Prince Turki Al Faisal, who warned of US weapons ending up in Al Qaeda's hands. In addition, Prince Talal Al Faisal, a junior Saudi royal, concluded that the US's recent actions signal that the "US can never be trusted".

As these statements suggest, Gulf states such as Saudi Arabia that have relied on substantial US support to maintain internal security may feel like they have no other option but to coexist with the Taliban or bolster other alliances as the latest US step back from the region confirms Saudi fears. Riyadh may therefore begin to increasingly conduct its foreign policy without the same level of US cooperation as it focuses on other alliances. The Kingdom could also find itself more isolated from other key allies such as Pakistan.

This is likely the primary reason for the recent announcement that US Secretary of State Antony Blinken and US Defence Secretary Lloyd Austin are travelling to Saudi Arabia, Qatar, Bahrain, and Kuwait separately, over the coming days. Together, the Austin and Blinken trips are meant to reassure Gulf allies that President Biden's decision to end the war in Afghanistan does not indicate an abandonment of US partners in the Middle East.

The UAE is also suspicious about Qatar's linkages with the Taliban, underscoring the continued prominence of the intra-Gulf rivalry in shaping Emirati foreign policy. The UAE maintained ground hostilities in Afghanistan for eleven years until 2014 and has been actively involved in the provision of security and humanitarian support, adding to the shared hostility with the Taliban. However, given the potential spill-over threats from refugee flows and terrorism in the region, lucrative investment opportunities in the Afghan reconstruction, and as sizeable numbers of Afghan expatriates reside in the UAE, who remit significant sums to the Afghan economy, the UAE will inevitably be forced to find some way of engaging with the new rulers of Afghanistan. The Taliban's armed wing is unlikely to target UAE assets so long as discreet diplomatic links are maintained. Improving security conditions and open talks would allow UAE-based construction and energy companies to increase investment in Afghanistan.

Overall, the Taliban takeover adds another layer to already complex and shifting regional dynamics in the wider region. Not only are these shifts likely to impact how states across the Gulf interact and trade with one another, creating some uncertainty for businesses, but recent developments will also fuel concerns over the potential for renewed attacks from extremist actors.