# View from The Bosphorus - The Latest Developments in the Middle East

Various commentators have described the current political situation in the Middle East as “the new great game”. This has undoubtedly been caused by the inconsistent, incoherent and divisive foreign policy decisions of the Trump administration, which has redrawn diplomatic lines across the region and reduced America’s standing in the world. Examples of this includes President Trump’s opposition to the Iran deal, accusing an ally – Qatar - of funding radical and politicised ideology, committing full support to Saudi Arabia and failing to demonstrate a clear plan to resolve the conflict in Syria, all of which have profound political and economic implications for the Middle East.

At the most basic level the geopolitical struggle in the Middle East can be reduced to a rivalry for regional hegemony between Saudi Arabia and Iran. Some interesting by products of the receding influence of the US in the region and their lack of reliable support has been increased co-operation between Israel and Saudi Arabia, in an attempt to stymie Iran. It is very much an alliance of convenience and is firmly joined by the UAE, as well as Egypt and Jordan.

It seems to fit in with Crown Prince Mohammad Bin Salman’s ambitious new vision for Saudi Arabia, as he seeks to posit The Kingdom at the heart of political and economic matters in the Middle East. This includes projects such as ‘Neom’, a new hi-tech city strategically located in the North West of the country near allies Egypt, Jordan and Israel. The Neom project follows a series of social reforms in The Kingdom led by the Crown Prince, who has attempted to improve his nation’s image. He vowed to restore the nation to “moderate Islam” – by which he means a reversion to normative Sunni Islam as exemplified by the four main legal schools - and has attempted to break alliances with the puritanical Wahabi clergy which has been a cornerstone of the theological underpinning of The Kingdom. His purging of corrupt elites while causing consternation amongst the regions equity markets, pushed oil prices higher, as the price of oil reached a two year high of $62 a barrel. These modernising policies are an attempt to make the country a more palatable ally and a potential economic partner to Western suitors.

Given Saudi Arabia’s dependence on the Petroleum sector, projects such as Neom project can help diversify the economy. The total cost of the megacity is said to amount to $500 Billion, and will operate independently from an “existing government framework”. This will be especially appealing for foreign tourists and business partners who are uncomfortable with the opaqueness of dealing in the Kingdom. The project will consist of funding from the government, the sovereign wealth fund, as well as local and international investors. The city will reportedly be powered by clean energy, as Saudi attempts to align itself towards global trend in renewable energy.

Unfortunately, several attempts to diversify the national economy have failed in the past, such as the $10 billion financial district in Riyadh. Clearly investors require more details and a cohesive vision, such details have yet to be provided as the Neom project is still in its early planning stages. Furthermore, cynics have argued that domestic reforms are attempts to deflect attention from The Kingdoms rather disastrous – and exorbitantly expensive – war in Yemen, and its bizarre intervention in Qatar. The latter has strained relations between members of the GCC and perhaps could have been dealt with in a more amicable manner, particularly given the close integration within the region. While the former doesn’t show any signs of abating, particularly with the recent assassination of former President Saleh, who was attempting to seek peace with Saudi Arabia.

Iran has responded to President Trump’s aggressive policies by strengthening its ties with Russia as well as entrenching its position in Lebanon and Syria and making pragmatic overtures to Turkey and

Qatar. Re-elected Iranian president Hassan Rouhani faces the daunting task of reinvigorating a moribund economy which continues to be stifled by US sanctions and an over reliance on the Oil and Gas sector. While it may be that America is likely to be alone in pursuing these sanctions, nonetheless they will still dampen international enthusiasm for reintegrating Iran into the World Economy. In 2017 The Iranian parliament passed a 5-year economic plan which placed emphasis on foreign investment, with plans of raising on average $30 billion of foreign financing per annum, and it seems such ambitious goals will not be achieved in the near term. Nonetheless the Iranian market is still large enough to attract investors from within the region – Russia and Turkey – in particular the growing e-commerce sector and growing FMCG market remain attractive to investors that can navigate the intricacies the Iranian economy.

Perhaps the greatest boon to the Iranian economy is its continued backing of the Assad regime which Tehran will expect to reap economic rewards in the form of contracts to rebuild Syria.
Already the Iranians have agreed a deal with Syria to repair their power grid, hoping to inevitably connect it with its own power grid in an attempt to create the largest power network in the Middle East which will extend into both Lebanon and Iraq. Already Iran has exported $58 million worth of goods to Syria which marks a 100% increase from the previous year.

A final word on the other major regional power Turkey, which currently finds itself – as always – at the cross roads between competing powers. Much has been written on its failed Syria policy (circa 2011-2015) however the continued ambivalence shown by NATO and Western Europe towards President Erdogan – a misguided policy in our view, which includes arming YPD in Syria, an extension of the PKK – has pushed Ankara to seek alliances with Russia. Turkey has managed to salvage a modicum of respectability with Syria, as it seeks the disbarment of PKK affiliated Kurdish militia – and carve out a corridor along the border to protect its southern cities. Furthermore, it has sought arrangements with the Government in Baghdad to cut short the Kurdish Regional Governments attempts at independence, as well as pursuing PKK terrorists into Northern Iraq.

While it remains to be seen as to whether Turkey with benefit from the reconstruction of Syria in the same way Iran will, it has been extensively involved in the reconstruction of northern Syria, with the 772 square miles (about the same size as Luxembourg) triangle of Jarablus, al-Bab and al-Rai triangle being their main point of focus. This serves as a means of extending their sphere of influence whilst also providing an outlet for Syrian refugees to return home.

Financially Turkey is still exposed to the vagaries of international capital markets and investor sentiment, with the Lira under continued pressure, causing inflation to reach a 9-year high (11.9% in October). Despite this GDP has been solid in the first half of the year, at around 5%.

President Erdogan has continued stimulating economic growth via the construction of mega projects such as the Canakkale Bridge and the Third Istanbul airport. Furthermore Turkey is set to be a major recipient of Chinese largess with respect to the One Road One Belt project. All these large infrastructure projects will no doubt fortify the medium term success of the Turkish economy. In the short term however, given the tumultuous domestic events over the past year or so – the coup attempt and marginal win in the referendum – as well as Ankara's involvement combatting terrorism in Syria and Iraq, President Erdogan's priorities lie firmly within the national security and political realms for now.