

Khashoggi's murder is a point of no return

Mushtaq Khan, 1 November, 2018

Almost a month after the gruesome murder of Jamal Khashoggi, the story refuses to go away. After weeks of the Saudis denying that Khashoggi was dead, they changed course and claimed that he was accidentally killed in the Saudi consulate. The story was amended once again to say he had been killed in a premeditated manner, and 18 Saudis were arrested in the kingdom.

It is this suspect story and Turkish pressure – and the undeniable media interest – that has captivated the global audience. What should also be noted is the changing stance of the US government (despite the difference between President Trump's response and the more considered establishment view): the Secretary of Defence (Jim Mattis) has called for a transparent investigation that meets global standards, and recently stated that the Saudi-coalition waging the Yemen war has 30-days to begin peace talks.

Then on 31 October, King Salman's younger brother (Prince Ahmed) returned to the Saudi kingdom after six years in self-imposed exile. This has raised questions about whether his return is a sign that the Saudi succession is being reconsidered, or whether the entire Saud family (including disgruntled princes) are rallying around the beleaguered crown prince (MBS) to show the world that Saudi executive power will not be influenced by global opinion.

Global pressure on the Saudis continues to mount. The Turkish president has repeatedly said the Saudis have not been forthcoming with information, and that their behavior shows they are protecting "someone". President Erdogan has posed three questions that the Saudi authorities cannot continue to ignore: Where is Khashoggi's body? Who is the local collaborator? Who ordered the murder?

Within the context of the Middle East, the Khashoggi murder may even have eclipsed the Arab Spring of 2011.¹ In our view, it has unleashed geopolitical forces that now cannot be contained. In effect, the difference between this episode and the Arab Spring, boils down to changing global dynamics. As the world moves toward a bipolar system, principal players in the new order are evaluating where they (and their allies) stand. Even the US is unable to put the genie back into the bottle, and will have to wait and see just how this issue plays out.

Geopolitical backdrop

In an earlier paper (*The Changing Global Order*, 10 May 2017), we proposed the creation of a bipolar world order that is more balanced than the previous rivalry between the US and the Soviet Union. Unlike the Cold War, the Soviets were barely able to match America's military might, and did not have a strong enough economy to sustain this military presence. In the paper, we proposed that the two groups (the *US Allies* and the *Sino-Russian Axis*) are remarkably well-balanced in terms of total population, economic strength and military reach. America's economy might tip the balance in favor of the Allies, but China's growth trajectory means that the Axis countries would catch up in 15-16 years.

¹ The Arab Spring started in Tunisia and spread to most of the Arab world, triggering the Syrian civil war, the overthrow of governments in Egypt, Libya and Algeria, but was suppressed by the Gulf monarchies. With the tacit approval of the US, this people's movement was put down and is now largely forgotten.

Wars have also changed: gone are the days where military hardware and technology could guarantee a quick victory (e.g. Donald Rumsfeld's failed *Shock and Awe* campaign in 2003) – now it's drawn-out battles against local militias in a hostile environment. It's about asymmetrical warfare and counter-terrorism.

As shown in **Tables 1 & 2**, the coalition members have a history of animosity with countries in the other group. For example: US-China; US-Russia; US-Iran; Pakistan-India; Iran-Israel and Iran-Saudi. More recently, relations have frayed between Pakistan and the US, while Turkey is having issues with both Saudi Arabia and Israel. There is also an uneasy relationship between Russia and the UK, and border tensions between China and India.

These dynamics dovetail nicely into natural and historic alliances: US-Israel and China-Pakistan; and growing common interests between Saudi-Israel (because of Iran); Turkey-Iran (because of Syria); Russia-Iran (because of the US); and Russia-China (again because of the US).

The Khashoggi murder will allow the Sino-Russian Axis (with Turkey taking the lead) to weaken Saudi Arabia and isolate Israel – it will also strain US relations with the Saudi kingdom. This event and the US sanctions against Iran (scheduled for 5 November), will force Iran to move closer to China and Russia, while the Syrian civil war has already brought Iran, Turkey and Russia onto a common platform. US sanctions on Iran are likely to further strain US-EU relations, and, in our view, Europe is unlikely to take sides in this bipolar order.²

Global traction

While many would agree with this bipolar world order, it doesn't explain the global infatuation with the Khashoggi murder. We believe this can be traced to the act itself: a gruesome premeditated killing, in which Jamal Khashoggi was lured into the Saudi Consulate in Istanbul, tortured, killed, dismembered (his body is still missing), and how 15 Saudis flew into Turkey for this mission, and departed soon afterwards.

This could be a Hollywood thriller with one caveat: the end of the story has still not been scripted, and is being played out *live* in front of the world. Like Donald Trump's presidency, this is reality TV at its very best, with President Erdogan nudging the plot with a steady drip-drip of tantalizing details. It's amusing to imagine how Erdogan is probably relishing Saudi missteps as he tightens the screws on the Saudi government – the rest of the world simply watches as if addicted to the show.

Table 1: US Allies (2017 data)

	GDP (\$ bln)	5yr avg GDP growth	Weighted avg GDP growth	Pop (mln)	Nukes
US	19,485	2.2	1.7	326	6,550
India	2,602	7.1	0.7	1,317	135
Saudi	687	2.3	0.1	33	-
Israel	351	3.5	0.0	9	80
UK	2,628	2.2	0.2	66	215
Total	25,754		2.7	1,750	6,980

Table 2: Sino-Russian Axis (2017 data)

	GDP (\$ bln)	5yr avg GDP growth	Weighted avg GDP growth	Pop (mln)	Nukes
China	12,015	7.1	5.6	1,390	280
Russia	1,578	0.3	0.0	144	6,850
Iran	431	3.5	0.1	81	-
Turkey	852	6.1	0.3	81	-
Pakistan	305	4.3	0.1	197	145
Total	15,179		6.2	1,894	7,275

Source: IMF; Nukes from Taylor & Francis and Stockholm International Peace Research Institute

² If the EU continues to maintain commercial dealings with Iran, and China and Russia openly defy US sanctions, this will undermine the US policy in the Middle East. Furthermore, this could also be the required impetus to create a parallel global payment system that avoids the US Dollar (*A Self-Induced Challenge to the US Dollar*, 13 October 2017).

How much longer can this go on?

The main protagonists in this unfolding drama have no reason to stop. Turkey wants to weaken a regional rival (Saudi Arabia), and distract the Turkish people from their economic difficulties; Qatar is using *Al-Jazeera* to shift public opinion against the Saudi-Emarati coalition that has isolated the country; and Iran is simply enjoying the show as its sworn enemy self-destructs. Global media channels (especially CNN) are enjoying high ratings at the expense of the Trump presidency, and his son-in-law's naïve Middle East policy. Many would argue that a Palestinian solution on Israel's myopic terms, is a non-starter.

The Khashoggi murder has done more to draw global attention to the Saudi-led war in Yemen, than reports covering this war since 2015. The humanitarian disaster is often a follow-up story on global media updates on the Khashoggi murder. More broadly, we would argue that while the global media has always been uncomfortable with Saudi Arabia, this event has energized the negative portrayal of the kingdom. Media channels like CNN have put Khashoggi's murder within the context of a number of policy blunders by MBS after he consolidated power. The sub-text is that such blunders should have resulted in a change in leadership, but apparently not in an absolute monarchy.

The list of missteps is impressive: (1) initiating a full-blown war against Yemen by forging a coalition of countries indebted to the kingdom (March 2015); (2) isolating Qatar from the GCC, which has pushed it into the ambit of Iran and Turkey (June 2017); (3) arresting many Saudi princes (and allegedly torturing some) who posed a threat to MBS (November 2017); (4) kidnapping the Prime Minister of Lebanon and forcing him to resign on live TV from the Saudi capital (December 2017); (5) arresting and prosecuting women activists just before allowing women to drive in the kingdom (May 2018); and (6) severing diplomatic ties with Canada after a Tweet in support of incarcerated Saudi activists (August 2018). Media channels have used this list to characterize MBS's flawed leadership, playing up the almost comical shifts in the Saudi narrative, as Turkey plays one card after another to embarrass the Saudi kingdom.

Contrary to popular perception, we do not believe Turkey is looking for a pay-out from the Saudis. The Turkish government's unwillingness to come clean about the alleged audio (and possibly video) recording of the torture and murder of Jamal Khashoggi, is driven more by the pace at which President Erdogan wants to shape this unfolding drama, than a sum of cash. Why would President Erdogan want to sully his country's position with money, when he has the opportunity to fatally weaken the House of Saud? Besides, Qatar is in a far better position to help Turkey financially, compared to an overstretched Saudi economy.

The Saudi response

The Saudis are playing for time. They are frustrated that the Khashoggi story still headlines on CNN (and obviously *Al Jazeera*), and are hoping that a drawn out investigation will push this story off the global radar. But they cannot manage President Erdogan, who is keen to keep the story alive. As expected, the Saudi authorities have insisted that their investigation will determine the fate of the 18 Saudis who have been arrested, and declined Erdogan's offer to conduct the investigation and trial in Turkey. What was not expected was a statement by the US Defence Secretary that one country's refusal to accept global requests for a credible investigation could destabilize the entire region.³

³ In its on-going coverage of this event, CNN recently aired the view of an expert who claimed that such language has never been used by a US official against Saudi Arabia, even after the terrorist attacks of 9/11.

In our view, the Khashoggi murder will not go away. With mounting global pressure, what are Saudi Arabia's options? One option some have argued for is to disrupt the oil market by cutting Saudi supply, thereby pushing up global oil prices. So far, President Trump has been keen to get past the Khashoggi incident to secure Saudi support when the US imposes sanctions on Iran. To keep the oil markets calm, the US expects Saudi Arabia to ramp-up supply to counter the removal of Iranian oil from the global market.

There are a couple of reasons the global oil market will remain calm (price bound), irrespective of Saudi Arabia: one, alternative sources of oil (e.g. US shale) would be triggered that would increase supply and neutralize prices; and two, Iranian oil supply may not disappear as Asian buyers (including India) could defy US sanctions and continue buying Iranian oil. As a final point against the Saudis disrupting the oil market, if oil prices do spike in early November – and this undermines President Trump's efforts to maintain Republican control of the House and Senate – Trump will blame the Saudis (and the Saudis know it).

So if oil cannot be used to cajole the world to drop the Khashoggi issue, what other option does the kingdom have? The Saudi strategy appears to be to stand firm and deny MBS's involvement, and hope other global events take center stage. Despite negative publicity, the Saudi government went ahead with its investor conference in Riyadh, and substituted high profile drop-outs with Asian and Arab leaders who either need money from the Saudis, or have recently received enough to show their fealty. The image of a confident and talkative MBS, surrounded by the King of Jordan, the Prime Minister of Lebanon and Prince Al-Waleed, is a not-so-subtle message that absolute power works within the kingdom, while money works outside the kingdom.

MBS's latest gamble

The defiance on display at the Saudi investor conference, is the latest MBS gamble. The crown prince said that the fallout of the Khashoggi episode has revealed Saudi Arabia's friends and her true enemies – the sub-text is that friends will be rewarded and enemies will be punished. Many would argue that MBS is a hair's breadth away from becoming King, and would remain King for decades – perhaps even half a century. So for Saudis and foreigners alike, the issue is whether they can be critical of MBS, and risk dealing with a vengeful young King who will not forget what happened in October 2018. For many countries in the Middle East, if it isn't the power of the Saudi cheque book, it will be the fear of an angry Saudi King.

For this threat to work (*you are either with MBS, or you are an enemy of Saudi Arabia*) it has to be all-or-nothing from the Saudi government. The script must be strictly followed to ensure that global media cannot find cracks that fuel speculation. This also means zero tolerance for palace intrigues; keeping King Salman isolated from the rest of the Saud family; pushing friendly countries to publically support MBS and his reform agenda; moving fast on Vision 2030; and taking the fight to President Erdogan.

In many ways, MBS and President Erdogan represent two faces of Islamic governance. Erdogan believes in political Islam (democratic elections) and has been a firm supporter of the Muslim Brotherhood, while the House of Saud is threatened by the Muslim Brotherhood, and retains all political power within the family. The House of Saud uses Islam to justify its rule and create a social order. In our view, both MBS and Erdogan view the Khashoggi episode as a battle to determine Arab leadership that will shape the Middle East in the next few decades.

This is a significant concern, as the Middle East is vulnerable – if the transition in Saudi Arabia is disruptive, the entire region could be destabilized. As things stand, Syria, Libya, Yemen and Afghanistan

are already in turmoil; if Saudi Arabia experiences an unexpected shake-up, this could destabilize the UAE; Bahrain; Egypt; Kuwait; Jordan; Iraq; Lebanon and perhaps Oman. That pretty much covers the entire Middle East.

The stakes are high. Since the creation of the Saudi kingdom in 1930, the succession of power from one king to the next, has been smooth. One could also argue that this congenial transition has allowed the neighboring Gulf states to remain stable and prosper. MBS may argue that this stability is being threatened by Turkey & Iran, and must be resisted. The argument is that if the House of Saud can weather this episode (and stand firm with MBS), the kingdom would be able to push through with reforms and pull Saudi Arabia into the 21st century. MBS may also state that the US wants to confront Iran on behalf of Israel, and this moment must be seized to fatally weaken Iran and isolate Turkey. He may further argue that if the US loses interest in the Middle East while Iran gains influence, the kingdom could face an existential threat.

MBS's future

From a non-Saudi perspective, commonsense damage control by the House of Saud, would require that MBS be removed as the crown prince, and withdraw from public life. The reason is simple: as the Khashoggi story refuses to go away, MBS becomes increasingly toxic – each day is another nail in the crown prince's political future. His economic/social reforms are no longer credible, as the needed foreign participation to wean Saudi Arabia off oil is increasingly unlikely.

Some people have suggested that if Saudi Arabia is snubbed by the US, MBS will reach out to China and Russia. This is quite likely, but we believe it would not be a strategic realignment, but only a transactional relationship (i.e. opportunistic arms sales to the kingdom if the US Congress halts arms sales to Saudi Arabia). In the larger scheme of things, China and Russia are more interested in siding with Iran in the Middle East, not the Kingdom of Saudi Arabia.

Removing MBS would also have a calming influence within the Saud family, and return the succession path to the more traditional brother-to-younger-brother system. The incarceration of senior princes (especially King Abdullah's sons) in November 2017, remains a source of anxiety and anger within the Saud family. In our view, President Erdogan's pointed references to King Salman in his "naked truth" speech to the Turkish parliament, was a not-so-subtle hint that while MBS may be running the country, King Salman has the final say.⁴

We acknowledge that MBS is too deeply engrained in the Saudi power structure, and his removal could be destabilizing. Saudi youth may rally to his support, fearful that his removal would re-instate religious scrutiny and reverse the easing social norms in the country. However, the Khashoggi episode has shifted international goodwill against MBS and his checkered past. While global media has noted the efforts by MBS to liberalize social norms and push back the religious police in Saudi Arabia, it also talks about his authoritarian rule and policy missteps.

Some have realized that MBS's economic reforms have effectively been stalled after King Salman intervened to stop the IPO of Saudi Aramco, as the expected inflow of funds from this sale, was earmarked for MBS's Vision 2030. Furthermore, analysts have highlighted how the anti-corruption shake-down in November 2017 has dried up fresh domestic investment, which means the Saudi economy cannot move forward without foreign participation. But the key tech companies that would help build a

⁴ Many would argue that King Salman is risking the future of his father's kingdom (King Abdulaziz Al Saud), for what appears to be the authoritarian whims of a 33-year old (albeit his favorite son). Reinstating the previous crown prince (Prince Nayef) would be the obvious choice.

new Saudi Arabia have stepped back and may not return as long as MBS remains in power. In our view, the Khashoggi episode has tainted MBS to the point where there is little hope that Vision 2030 can succeed with MBS at the helm.⁵

America becomes introverted

If MBS steps down, then Jared Kushner's future in the White House is doubtful. Kushner has been championing MBS for some time, and his Middle East strategy – which is US policy – hinges on the crown prince. Many would argue that this is the real reason behind President Trump's embrace of the Saud family. However, if the American establishment decides that MBS must go to save the House of Saud, this would be the external push needed for King Salman to remove MBS. President Trump would take it in his stride – he would downplay US foreign policy in the Middle East and focus on domestic politics.

This view may be dismissed given the special relationship between the US and Saudi Arabia, which dates back to the 1930s. In our view, the world has changed, and Saudi oil fields are no longer an issue of US national security – also, the US President may not be interested in maintaining the *Pax Americana*, which Trump's predecessors have fostered since WW2.

As President Trump enters the second half of his presidency, his focus will return to the US and his political base. Getting more involved with a tainted House of Saud (or Iran, or anything to do with the Middle East), will give him zero mileage for his 2020 elections – so why bother. In our view, as President Trump gears up for 2020, he may begin to talk more frequently with Steve Bannon, who is the ideologue behind Trump's political successes in 2016.

An avowed isolationist, Bannon may encourage President Trump to distance himself, not just from the Saud family, but from the entire Middle East. Bannon could spin this into a policy stance that is more about winning the 2020 elections than US foreign policy. For example, President Trump could decide that he needs to distance the US from the Middle East, and *also* close down US military bases in the region. The political rhetoric is easy:

- *Why should America maintain expensive military bases the world over, when its infrastructure is crumbling in Middle America;*
- *America needs to protect its own borders, not the borders of oil-rich Arab monarchs, especially those who don't obey international rules;*
- *We could sell arms to Arab countries, but we will not have American soldiers risk their lives to protect their oil.*

Erdogan's regional play

President Erdogan knows what is at stake, as the Saudi government double-down on its stance that MBS is innocent. Erdogan knows global opinion is on his side, and that Arab countries that have shown their support to the kingdom, are compelled to do so. In our view, Erdogan has more gruesome details about Khashoggi's murder, but is holding back to see if his strategy to dislodge MBS will succeed. One must realize that if MBS is taken out of the picture, the kingdom (and its Gulf allies) will become more passive players in the Middle East.

⁵ After the Khashoggi episode, the MBS vision to make Saudi Arabia a new Europe is delusional. By embracing privilege as his birthright; the power grab and humiliation of family members; his intolerance for criticism; and his willingness to humiliate world leaders, has revealed that MBS lacks the leadership qualities needed to change the Kingdom.

As a pivotal player in the Sino-Russian Axis, President Erdogan must realize that Turkey could shape the Middle East, and bring Iran back into the fold of the global community. If Erdogan can facilitate the exit of MBS and play a role in ending the war in Yemen, many in the Arab world will look upon him as an elderly and wise leader. Turkey would then be ideally placed to mediate a truce between Saudi Arabia and Iran, after almost 40 years of animosity. For patriotic Turks, Erdogan's last few years in power, would revive the former glory of the Ottoman Empire that ruled the Middle East, North Africa and parts of Europe.

The biggest challenge for the kingdom is to wean Saudi citizens off the cradle-to-grave welfare system, which is only a pared down version of how the Saudi royal family live. This means the average Saudi must learn work skills and develop work discipline; it also means the royal family must lead by example, which requires unlearning habits that go back for generations. MBS does not display this maturity, nor does he compare well to the globally respected King Faisal who reigned from 1964 to 1975.

President Erdogan has perhaps come to the same conclusion, and decided that even if MBS survives the Khashoggi episode and becomes King, his reign will not last very long. Erdogan is betting the Saud family thinks it can survive the changing global order with cosmetic reforms and concessions. At best, the motivation for Erdogan's stance on the Khashoggi case could be to send a warning to the Saud family that if such actions are not dealt with sternly, the kingdom might implode and destabilize the entire region (including Turkey).

Conclusion

At the risk of simplifying developments in the Middle East, let us focus on Iran and Saudi Arabia. These two countries have similar pasts, but are at very different stages of evolution. Iran was once America's chosen ally in the Middle East (much preferred to Saudi Arabia), until the country broke and turned against the US – in return, Iran was isolated from the global community. But even in its isolation, Iran developed its own strength, and is now a standalone regional power.

Saudi Arabia, on the other hand, has been behaving like a regional power, but this hinges completely on blanket US support and oil-driven wealth. As the global order changes and oil loses its strategic importance, Saudi Arabia is increasingly vulnerable to domestic discontent – its social contract is based on a system of state patronage, which is no longer sustainable. So while Iran is making powerful friends in Russia and China, Saudi Arabia could be losing American support while it deals with a restive population.

Saudi Arabia desperately needs to change, and MBS is not the agent of change. Erdogan has figured this out, and wants to go down in history as the man who saved the Middle East.

PS: What this means for Pakistan

By politely refusing to be drawn into the Saudi-led war on Yemen, Pakistan has played it smart. The country must now retain this neutrality as events in the Middle East play out. Analysts have been surprised by Saudi generosity during PM Imran Khan's second trip to the kingdom last week.⁶ The \$ 6 bln package has been a boon for the PSX and allowed the PKR to gain some strength. Some observers have questioned whether this generosity is linked to Pakistan's support for MBS. We do not think this is the case for two reasons: one, the Government of Pakistan (with a nudge from the Army) has stated that it

⁶ Foreign media has stated that the second trip to Saudi Arabia was on the direct request of MBS, who allegedly called the PM Imran Khan and personally invited him to attend the investor conference. The generosity the second time around, after the "unsuccessful" trip in September 2018, should be easy enough to understand.

will maintain a neutral stance in the standoff between Saudi Arabia and Iran (this contradicts MBS's regional view); and two, Pakistani army officers have been providing security to the Saud family for quite some time now. In view of this, we feel that Saudi generosity is for services rendered rather than expectations of something new. With many talking about possible in-fighting within the House of Saud, this enhances the importance of Pakistani army officials in the kingdom.

If Saudi Arabia is poised for change, the structural impact on Pakistan's economy will be via worker remittances and financial assistance during periods of stress. As we have said in the past, remittances from the region are likely to decline as the pace of construction and economic activity slows in the GCC. Furthermore, other than the recent flourish to enhance MBS's global standing, the Saudi cheque book cannot remain generous as the kingdom is now borrowing from the international market.

On the political front, Pakistan's previous leadership maintained closer relations with Saudi Arabia, which created some distance with Iran. Since we think that Pakistan is now in the other camp, the Government of Pakistan is likely to develop closer relationships with both Turkey and Iran. We do not think this will undermine our relationship with the Saudis or their Gulf allies, as we expect the new Middle East to be less aggressive towards Iran. In fact, if the US does reduce its military presence in the Gulf, or President Trump decides to charge Arab countries for US protection, the Pakistan Army could gain.