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Reflections on the Khashoggi Incident: Part II

(NB: Due to the Thanksgiving holiday, the next report will be published on November 26.)

Last week, we discussed the issue of succession in the Kingdom of Saudi Arabia (KSA). In Part II, we will begin with a discussion of the regional power rivalry between Turkey and the KSA, then outline Turkish President Erdogan's actions in the wake of Khashoggi's homicide. We will analyze U.S. policy goals in the region followed by our expectations for the resolution of this incident. As always, we will conclude with market ramifications.

Turkey versus the KSA

The Khashoggi incident and Turkey's involvement should be understood within the context of a long-running rivalry. Both nations want to dominate the Sunni-aligned nations of the Middle East. Turkey sees this role as its natural "birthright" due to the nearly 600-year dominance of the Ottoman Empire. Saudi Arabia believes the role of leading the Sunnis in the region is part of its position as defender of the Muslim holy sites of Mecca and Medina. Both nations have sharply differing views of how that dominance should be exercised.

Turkey's view of the interaction between the state and religion is based on the idea that Sunni Islam should be a non-clerical religion, as compared to Shiite Islam. According to this concept, there is no clerical hierarchy. The state should protect Islam but does not need the blessing of a clerical class for legitimacy. Instead,

because Turkey is a democracy, legitimacy comes from the ballot box. For this reason, Turkey supports groups like the Muslim Brotherhood and Hamas who participate in the democratic process. This position tends to be opposed by secular Arab nations (they don't want to compete with religious parties), theocracies (like Iran) and authoritarian states that believe they have some religious claim to legitimacy.

The KSA opposes Turkey's position. The founder, Ibn Saud, built a coalition of tribal powers and the Wahhabi clerical establishment. The austere form of Sunni Islam, represented by the Wahhabis, opposes democracy as an illegitimate form of government, in part, because democratic nations can make laws that may not align with scripture. Thus, the royal family has supported a centralized clerical class that gives the government legitimacy. In practice, the financial support given to religion allows the royal family to "purchase" religious legitimacy. The KSA opposes the Muslim Brotherhood and Hamas because both accept democracy as a legitimate form of government.

Both these Sunni powers are trying, to a degree, to undermine the other. The KSA supports Kurdish groups in Syria and Iraq that Turkey views as a threat. Turkey has put military personnel in Qatar, a country the KSA has blockaded. Turkey has also entered negotiations with Kuwait for military cooperation, a sign that the latter may not trust the KSA.¹ Turkey offers

¹ <https://www.trtworld.com/middle-east/why-is-kuwait-approaching-turkey-for-military-cooperation-21102>

asylum to members of the Muslim Brotherhood.

At the same time, both nations face a common threat from Iran, although the KSA views the Shiite theocracy as a much graver risk. Turkey has come under fire for breaking sanctions by trading with Iran. But, Turkey also knows that it does not want a Shiite arc from Tehran to Beirut and wants to contain Iran as well. And so, while each Sunni power wants to dominate the other, neither can afford to seriously damage the other for fear it would open the field for Iranian domination. Thus, there is some degree of cooperation. Saudis often vacation in Turkey and are active investors in Turkish real estate.² Although rivals, both nations do need each other to counter the Iranian threat. Turkey's preference is to lead the Sunni world and have the KSA remain intact but follow Ankara's policy direction. The KSA would prefer the opposite. Until one of these outcomes occur, both will try to undermine the other but not to the degree of collapse.

Erdogan's Play

The Khashoggi incident has been a gift for Turkish President Erdogan. Turkey has watched relations between Washington and Riyadh steadily improve under President Trump, especially compared to rather chilly interactions during the Obama administration. At the same time, U.S. and Turkish relations have been strained over the Pastor Brunson affair.³ The intelligence Turkey had on Khashoggi's killing provided Erdogan with critical information that gave him an edge as the narrative unfolded.

² <https://goldenportist.com/real-estate-ownership-in-turkey-for-saudis/>

³ <https://foreignpolicy.com/2018/10/16/erdogan-may-have-freed-pastor-brunson-but-turkeys-economy-is-still-trapped/>

Immediately after the event, the KSA tried to control the narrative; at each turn, Turkey was able to show the implausibility of the kingdom's story. Saudi Arabia tried to say Khashoggi had left the consulate; Turkey was able to show it was a crude body double. The KSA tried to claim the death was an accident; Turkey had recordings showing that this was not the case. The KSA tried to argue that the death was a deportation gone awry. The fact that a forensic physician was on the team suggested a homicide was planned all along.

At the same time, Erdogan has been careful not to accuse the royal family directly. He has spoken kindly of King Salman and not mentioned Crown Prince Mohammad bin Salman (MbS) at all. This would suggest that Turkey doesn't necessarily want to cause upheaval of the Saudi government and that a deal can be reached.

What does Turkey want? Ideally, Erdogan would like to see MbS removed. In the spring, MbS accused Turkey of being part of a "triangle of evil" along with Iran and extremist religious groups.⁴ Although we doubt MbS will be removed from his path to the throne by his father, there are reports that the king has taken more active measures to curb his son (see below).⁵ Turkey would welcome any actions to "clip the wings" of MbS. Turkey would also like to see the blockade on Qatar eased and Saudi support for the Kurds reduced or ended.

But, likely more than anything, Turkey would like money. Turkey is in the midst of

⁴ <https://www.reuters.com/article/us-saudi-turkey/saudi-prince-says-turkey-part-of-triangle-of-evil-egyptian-media-idUSKCN1GJ1WW>

⁵ <https://www.reuters.com/article/us-saudi-politics-king-insight/as-khashoggi-crisis-grows-saudi-king-asserts-authority-checks-sons-power-sources-idUSKCN1MT1LF>

an economic crisis.⁶ The Turkish lira has come under pressure and there is concern that the Erdogan government will need an IMF bailout. At some point, we would expect the KSA to provide significant investment into Turkey and Erdogan will stop his consistent undermining of KSA narratives about the Khashoggi incident. The fact that this hasn't happened yet suggests a deal hasn't been reached. At the same time, as we discussed in the above section, we doubt Ankara wants a leadership crisis in the KSA. Thus, we would expect an arrangement to be made.

U.S. Policy Goals

As we have noted on numerous occasions, American Cold War foreign policy was sold as communist containment but also included the “freezing” of three conflict zones, Europe, the Far East and the Middle East.⁷ For the Middle East, the U.S. accepted the borders inherited from the British and French colonialists even though it was widely known that they were artificial. Simply put, the colonial powers put ethnic, tribal and religious groups together that didn't get along and separated the same groups across those borders that would have been happier together. When these states became independent, the only workable governments tended to be authoritarian. Although American ideals did not align with the governments that existed, the U.S. needed allies that would keep oil flowing from the region to the Free World and prevent the Soviets from gaining influence in the area. Thus, American presidents during the postwar period, from Roosevelt to H.W. Bush, maintained alliances with these sometimes brutish states.

The post-Cold War era became particularly challenging. Saddam Hussein's invasion of Kuwait prompted the H.W. Bush administration to build a broad coalition to remove Iraqi troops but, true to American Cold War foreign policy, the coalition did not move on Baghdad to oust Saddam Hussein.

However, that didn't resolve the problem. The U.S. wanted someone to replace Saddam Hussein and kept Iraq under economic sanctions and no-fly zones for most of the Clinton administration's term. The problem was that Iraq was the primary balancing power against Iran. The sanctions were steadily weakening the Iraqi economy, reducing the effectiveness of the country to prevent Iranian power projection.

In the wake of 9/11, the second Bush administration ousted Hussein from power and attempted to put a democracy in place. This action led to a civil war and allowed Iran to expand its influence, creating a “Shiite arc” from Iran to Lebanon. The loss of Iraq as a counterbalance to Iran has unsettled American foreign policy in the region ever since.

President Obama wanted to reduce U.S. involvement in the region. His goal was to focus on the Far East (the “pivot” to Asia), which required the U.S. to free up resources from other areas. To make the pivot, Obama tried to implement offshore rebalancing by rehabilitating Iran and forcing the Sunni powers to unite against the Iranian threat. To accomplish this, President Obama arranged the “Joint Comprehensive Plan of Action” (JCPOA), which was signed by China, France, Russia, Germany, the U.K and the U.S. The plan limited Iran's nuclear program in exchange for an easing of sanctions.

⁶ See WGRs, The Turkey Crisis: [Part I](#) (8/20/18) and [Part II](#) (8/27/18).

⁷ See WGR, [The Mid-Year Geopolitical Outlook](#) (6/25/18).

The deal was controversial. It didn't fully eliminate Iran's nuclear threat, still allowed it to develop missile technology and did nothing to prevent Iran from projecting power. The Sunni nations in the region and Israel strongly opposed the direction of U.S. policy. The KSA, in particular, felt abandoned by the U.S.

Although we will never know for sure, our guess is that it was Obama's plan to eventually normalize relations with Iran and allow the theocracy to dominate the Middle East. However, it isn't even obvious whether an incoming Clinton administration would have been comfortable with this outcome. Nor is it obvious if an Iran-dominated Middle East would have worked; it is quite possible that Iran's behavior would have prompted an American response to reduce its power at some point.

Regardless of what President Obama's plans were, the Trump administration reversed his predecessor's policy. President Trump's first overseas trip was to Saudi Arabia. He has subsequently pulled out of the JCPOA and is re-implementing sanctions on Iran. KSA leaders aggressively moved to support the incoming American president, anxious to reverse Obama-era policies. The royal family found a willing partner in President Trump.

The Trump administration has essentially returned to a policy of containing Iran, which has been U.S. policy since the 1979 Iranian Revolution. However, Obama's goal of reducing U.S. involvement in the Middle East remains in place. For this goal to be met, the U.S. needs reliable Sunni partners in the region.

In general, the U.S. has considered the KSA more reliable than Turkey. The latter has economic ties to Iran and has an incentive to

cooperate with the Iranians with regard to containing the Kurds. Saudi Arabia, on the other hand, has never had warm relations with Iran, either under the Mullahs or the Shah. The KSA always viewed Iran as a threat to Saudi power projection.

However, to be a useful ally in the region, the U.S. needs the KSA to be stable. The aggressive actions of MbS, which clearly border on recklessness at times, undermine the reliability of the KSA to American interests.

What happens next?

There is little evidence to suggest that King Salman will replace MbS as crown prince. Although the king has not been deeply involved in the day-to-day operations of the kingdom for some time (there are reports he suffers from the early stages of dementia⁸), he has inserted himself recently to curb the young prince. For example, the king apparently ended the IPO of Saudi Aramco,⁹ concluding that the sale of the nation's premier asset was a step too far. MbS was expected to use the revenue from the IPO to fund his ambitious plans to reform the Saudi economy. The king sent his most trusted aide, Prince Khaled al-Faisal, the governor of the province of Mecca, to Turkey in an attempt to defuse the crisis.¹⁰ The fact that Turkish President Erdogan continues to speak respectfully of King Salman suggests the gesture was well received.

⁸<https://www.theguardian.com/world/2018/oct/13/mohammad-bin-salman-saudi-arabia-profile-crown-prince>

⁹ <https://www.ft.com/content/5eb9d982-aab0-11e8-94bd-cba20d67390c>

¹⁰ Op. cit., <https://www.reuters.com/article/us-saudi-politics-king-insight/as-khashoggi-crisis-grows-saudi-king-asserts-authority-checks-sons-power-sources-idUSKCN1MT1LF>

Instead, a plan appears to be developing to put “guard rails” around MbS. We note that both Secretary of State Pompeo and Secretary of Defense Mattis are calling for a ceasefire in Yemen.¹¹ Such moves would indicate the U.S. has concluded this war has no obvious end and continuing the conflict will serve no useful purpose. If the ceasefire occurs, it will be a blow to MbS, who has been conducting the war even before he became crown prince. In the coming weeks, look for MbS to be surrounded by older, more experienced advisors while his current aides and advisors are removed.¹²

We also note that Prince Ahmed bin Abdulaziz, full brother of King Salman¹³ and a critic of the move to name MbS as crown prince, has returned to Riyadh after a self-imposed exile to London. He feared that his criticism would lead to his arrest and has remained out of the country. This is the last surviving full brother of King Salman and his return suggests the sons of Ibn Saud have concluded they need to curtail the power of the grandsons of Ibn Saud (read: MbS).

Essentially, we see the king’s moves as the result of a realization that things have gotten out of hand and the crown prince needs to be constrained. It isn’t clear if his actions will be successful, but U.S. support for a Yemen ceasefire is likely a sign that the Trump administration has concluded MbS is “bad for business” and needs guidance.¹⁴ This probably means that MbS will remain in line

¹¹ <https://foreignpolicy.com/2018/10/31/u-s-pushes-for-cess-fire-in-yemen/>

¹² <https://www.wsj.com/articles/saudi-royals-rally-to-protect-the-family-1540937102>

¹³ Meaning his mother was Hassa al-Sudairi; her sons have been the most influential of Ibn Saud’s offspring.

¹⁴ <https://www.nytimes.com/2018/10/30/world/middleeast/saudi-arabia-khashoggi-prince-ahmed.html>

for the throne but the older generation will attempt to tone down his reckless impulses.

Ramifications

Although there is much handwringing about the murder of Khashoggi, politically inspired assassinations by authoritarian leaders are nothing new. Russia has a long record of involvement in untimely deaths of critics, both home and abroad.¹⁵ So does North Korea.¹⁶ We doubt any Western nation applies significant sanctions against the KSA despite all the rhetoric.

However, financial and commodity markets must be aware that the potential for instability is elevated. If MbS doesn’t accept his power being curtailed and open conflict develops within the royal family, then the potential for serious instability could arise. This outcome would be very bullish for oil prices.

Nevertheless, this isn’t the most likely outcome. We expect the older generation to prevail over the crown prince and curtail his worst instincts, at least in the short run. However, as the early history of the post-Ibn Saud period shows, abdications and assassinations did occur and might again. One could argue that Saudi Arabia has managed to quell internal instability since the 1980s and that pattern may not be sustainable in the generational transfer of power.

Bill O’Grady
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¹⁵ https://www.washingtonpost.com/news/worldviews/wp/2017/03/23/here-are-ten-critics-of-vladimir-putin-who-died-violently-or-in-suspicious-ways/?utm_term=.d0c48b2bebb4

¹⁶ See WGR, [The Assassination of Kim Jong Nam](#) (3/6/17).

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