



NATO DEFENSE COLLEGE FOUNDATION

GULF STRATEGIC TRENDS

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In depth analysis

The Saudi-Iranian Proxy War

and the instable balance of power between Sunni and Shi'a

The global financial crisis has left its mark on the Gulf Cooperation Council (GCC), comprising Bahrein, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Strong injections of money in the welfare state — reserved only for local citizens and made possible by reserves accumulated during the 2003–2008 oil price boom — have helped contain its impact.

But the Gulf region is troubled now also by the political side effects of the US intervention in Iraq in 2003, which had the geopolitical consequence of making Iran the rising regional power. This has altered the already instable regional balance of power which rested on Sunni predominance and Shi'a subjugation, igniting a Shi'a reawakening which has been strengthened and enhanced by the Arab Spring since 2011.

Contrary to what ongoing protests across the Middle East and North Africa might imply, monarchs and ruling families in the Gulf still enjoy a certain degree of legitimacy in the eyes of their own people, on the backdrop of a division between native full citizens and foreign workers without civil rights. Most citizens of Arab monarchies want to see changes within the establishment, but not a complete regime change, whereas there does not seem to exist enough consensus around a revolutionary approach vis-à-vis change.

With the possible exception of Bahrein, there is still time for Arab sovereigns to change course. It is less dangerous for the monarchs to act now than to wait until the demand is overwhelming and could indeed spiral into an uncontrolled process of change. Their legitimacy is at stake, and they will likely face more severe challenges if they do not act soon.

Saudi Arabia's hostility towards the uprisings in Tunisia and Egypt, and its coordinated efforts to block change in the Gulf and in allied monarchies across the region, works directly against the goal of promoting reform. But especially in Bahrein, even if the protesters had sympathies with Iran, there are dim prospects for stability without a

serious new political initiative which would shape a new pact between the main ethnic and religious groups in the area and then create a new balance of power.

The Saudi push for the status quo

The Sunni minority in Bahrain could not last without Saudi money and tanks. Despite all their money, without the Saudi umbrella Qatar, Kuwait, and the United Arab Emirates are city-states that would be unable to defend themselves against a revolutionary regime inspired by Iran or by a possible new radical regime in Saudi Arabia, should the war of succession ongoing in the Kingdom end with the demise of the House of Saud and the ascendancy of a radical regime of ultra-radical ulema. In this case, only Oman would be probably isolated and strong enough to endure.

So far has been thought to be a Western interest to keep the House of Saud in power and therefore Saudi Arabia stable. Any disruption in Saudi oil exports—whether due to unrest, cyberattacks, or a new regime’s decision to reduce exports substantially—will have a major impact on the global economy.

In addition, the CIA war against al Qaeda is heavily dependent on the kingdom: for example, cooperation with Saudi intelligence is of utmost importance in the war against Al-Qa’da in Yemen and it has been a Saudi operation which foiled the last two attacks by al Qaeda in the Arabian Peninsula (AQAP) on the American homeland.

The problem is that the House of Saud has to manage a difficult transition between the second generation of a couple of dozen of direct sons of the founder to the larger third generation of nephews, which are in their thousands. This “war of succession” is the biggest factor of instability beneath the current events in the Gulf because it is the biggest obstacle to start a path of political reform.

The Iraqi push against the status quo

Maliki’s efforts to destroy his rivals have drawn him closer to Shi’a Iran, which has in turn affected regional power dynamics. To counter Iran’s influence, Turkey is now acting as the defender not only of Iraq’s Sunnis but also of its Kurds, even though

Turkey has long feared Kurdish nationalism in general and especially within its own borders.

Saudi Arabia has chosen as a matter of fact an interventionist attitude in Syria, motivated not only by the desire of extending the influence of conservative wahhabite Islam – and by that of letting some of the internal pressure on the regime go outside – but also by the plan of counterbalancing the Iraqi influence and the formation and strengthening of a pro-Shi'a axis that now runs through Iran, Iraq, Syria, and Lebanon. In this respect supporting the rebels in Syria is coherent also with the idea of replacing the Shi'a-Alawite regime with a Sunni government and undoing the pro-Shia axis.

The competition between these two regional trends in the Gulf is likely during the next months still to be won by emirs and monarchs working for the status quo. Should the financial crisis dry up the resources used now to quench the thirst for democratic participation, including a bigger role for women in public life, or should Iran get out from the international isolation in which is locked at the moment, political problems will arise soon.

Area Monitoring

Saudi Arabia

Two approaches to political reform

The political agenda in the kingdom of Saudi Arabia is more and more focussed on topics of reform and rights.

Two approaches to political reform have been prominent vis-à-vis royal initiatives tackling issues of reforming the governance of the kingdom. The rights activists represent the first approach: that of nonviolent activism aimed at reformulating the government from an absolute monarchy to a constitutional monarchy. This approach is shared and supported by the Umma Islamic Party, which calls for an elected head of government and the transfer of power and is the new factor in the sleepy Saudi political life. Umma's founders were arrested days after announcing the establishment of their party in March 2011.

The second approach is that taken by the Movement for Islamic Reform in Arabia, which argues that reform is impossible as long as the Saud family is in power, and that the monarchy must go and replaced by a popularly elected government. This movement is led by the exiled Sa'ad al-Faqih and goes back to the revolt against the House of Saud which came after the permission to US troops to deploy and stay on Saudi soil in order to re-conquer Kuwait from Saddam Hussein in 1990. The princes who press for reforms are doing so only to achieve financial and political balance within the family, but themselves remain beholden to a culture of inherited right.

Change not likely in the near future

The 5th of December 2012 a large crowd welcomed the Salafi Sheikh Sulaiman bin Nasser al-Alwan after his release after nine years of imprisonment. Similarly, there have been other rumblings of change in Saudi society. Most prominently, a group of rights activists and reformists have been brought to trial in the past year—including two of the eleven co-founders of the Saudi Civil and Political Rights Association, Abdullah al-Hamed and Mohammed al-Qahtani, but their trial has resulted in a number of clashes.

Even though the topic of reform is high on the agenda, even the most determined reformers expected meaningful change in a longer time than the time frame set by people in other Arab countries, due to the resilience shown by the House of Saud in avoiding structural changes.

The changes that have already taken place -- from the widespread protests in the Eastern Province (Sharkiyya) to the renewed push for women's rights to a legal campaign for human rights to the dramatic opening of an online public debate -- are nevertheless important, because it does not seem plausible that a country with such a young and intensely wired population can maintain indefinitely a system which denies transparency, accountability or equal citizenship. This is proven by a rapidly transforming and growing -- even though only virtually - public sphere.

The protest is virtual but nevertheless real....

Saudi Arabia has clearly been deeply affected by the Arab Spring, as it has been the case for all the other Arab countries. Nevertheless demands for political change have so far been blocked through a mix of repression and co-optation. A mix which is enough for the time being to contain demands for change, but which is less than needs and requests expressed.

The connection between Saudi Arabia's domestic crackdown and its regional policy is also clear. Riyadh's crackdown on its own reformists and massive domestic spending boom mirrored the support it offered for beleaguered monarchies in the Gulf, and also Jordan and Morocco.

As was the case for Egypt in 2004, when the civic and professional opposition to the regime went public and were put the seeds for the fall of Mubarak almost ten years later, Saudi Arabia today see a rapidly transforming public sphere and rising citizen demands finding little opportunity for expression in the formal political realm. Twitter is as a dramatic new Saudi public sphere in a country that never used to have a meaningful public sphere at all.

So far, the virtual protests have not been able to move into the streets in force, except in the East, which has experienced strong public protest on the systematic discrimination against Shi'ite citizens which is similar to what is happening in Bahrein.

...and has interesting commercial and industrial side effects

This has meant also as a side effect a huge growth – politically and industrially - of the role of the social media. Saudi Arabia is the world's first country regarding YouTube viewers, especially those who watch videos on smart phones. Latest statistics reveal that Saudis contribute more than 90 million YouTube views every day.

With more than three million active Twitter users, Saudi Arabia not only leads the Middle East, but, with a 300 percent year-on-year growth rate, actually is the first in the world as the fastest-growing Twitter nation. Indeed, Saudi Arabia grew more than 3.000% between 2011 and 2012, and currently accounts for some 50 million tweets per month. And it's not just Twitter – with six million Facebook users and 90 million daily YouTube views, social media have become a very serious business in Saudi Arabia.

Saudi Arabia and the change in the coming months

This contrast and tension between the institutional situation and the growing demand for more voice in the political and institutional arena coming from the youth, women and the majority of the Shi'a population of the kingdom are getting stronger and are there to stay.

Therefore, the same demographic challenges that prompted revolution in Egypt and Yemen (a very young population and very high underemployment), apply also in Saudi Arabia. This already explosive potential one must add also a restive Shi'a minority, mostly resident in the oil-rich Sharqiyya. The politically more extreme fractions of this minority probably received Iranian help and the local Shi'ites are part of the Iranian-Saudi proxy war ongoing in the Eastern part of Saudi Arabia, in Yemen, Bahrein and among the Arab minority in the West of Iran, respectively fanned by Iranian and Saudi interference.

Much more worrying for royals would be protests in Sunni parts of the kingdom, especially if they get co-ordinated with the turmoil present in the Shi'ite minority and unite with the rising demand for better representation coming from women and youth.

In particular, the Saudi opposition is expert in the use of information technology that could ensure rapid communication of dissent within the kingdom and to the outside world.

The Saud family has therefore spent more than \$130 billion since 2010 trying to buy off dissent at home. They have made reforms to let women sit in a consulting council, a move dismissed as “cosmetic” by many but nevertheless appreciated by women as a starting point.

As in other Arab revolutions, the opposition revolutionaries will not be united on anything except ousting the monarchy. There will be secular democrats but also al Qaeda elements in the opposition. Trying to pick and choose will be very difficult.

If things go wrong the unity of the kingdom could collapse as the Hejaz separates from the rest, the East goes with the Shi’a, and the centre could become a jihadist stronghold.

Even though a remote perspective by now, this series of events remain possible as long as the “war of succession” within the large royal families will not see a clear and universally accepted winner in a personality of the third and younger generation, that one of the children of the actual ruling princes, sons of the founder.

Iraq

The sectarian divide increases

Politics in Iraq and the surrounding region are increasingly sectarian. Inspired by the rebellion in Syria and supported by the Sunni leaders of Turkey, Saudi Arabia and Qatar, Iraq’s Sunnis may seek greater autonomy from the Shi’a-dominated central government in the years to come.

The pivot of unrest is the Sunni heartland of Anbar, a vast desert province that makes up a third of Iraq’s territory and is populated mainly by Sunnis in towns along the Euphrates River, once the hotbed of Sunni and al Qaeda’s attacks against US troops, which here had to endure some of the worst urban combat. Among the thousands of protesters in Falluja recently, some raised the old three-star Iraqi flag from the Saddam era and the black flag of al Qaeda’s local wing, the Islamic State of Iraq.

Sunni popular unrest has been accompanied by a growing violence from Sunni Islamist insurgents, who in recent years have been repudiated by the populace and now seem to get popular again. Four suicide bombers have struck recently, directed especially against

persons from civil society who are against the trend to militarise grievances and to open again a window to al Qa'eda.

Suicide bombers came also into action in the contested and oil-rich enclave of Kirkuk, (the semi-autonomous northern region of Kurdistan), where many Arabs live after the "Arabisation" policy carried out by late Saddam Hussein. The mortal wave is likely to increase or decrease depending directly on the quality of the relationship between the regional government controlled by the Kurds and the national government, headed by Nouri Al-Maliki.

Growing opposition to Al-Maliki

Thousands of Sunnis have taken to the streets to protest against the mistreatment of their minority since late December, increasing worries that Iraq could slide back into widespread sectarian confrontation. The protests erupted when authorities arrested the bodyguards of the Sunni finance minister, Rafi al-Issawi, on terrorism charges, a move that many Sunnis saw as politically motivated. Officials say it is simply a judicial case.

This violence complicates Maliki's attempts to end the protests, where demands range from amending the laws on terrorism, felt by many Sunnis as singling them out, to more radical calls for the Shi'ite leader to step down.

In response, tens of thousands of Sunnis took to the streets of Anbar, Mosul, and other predominantly Sunni cities, demanding the end of what they consider governmental persecution. Issawi has accused Maliki of targeting him as part of a systematic campaign against Sunni leaders, which includes the indictment of the Sunni Vice-President Tariq al-Hashimi in 2011 on terrorism charges.

The protests are evolving into a major political challenge for Maliki, whose fragile government has been blocked over how to share power almost since it was formed two years ago. Moderate Sunni leaders are calling for modification of the anti-terrorism law, more control over a campaign against former members of Saddam's outlawed Ba'ath party and the release of more detained prisoners under an amnesty law. But more radical Islamist leaders and clerics push even for an autonomous Sunni Muslim region to be set up in Anbar.

Meanwhile, Kurdish leaders identify Maliki as Iraq's main problem and some delegations of Kurds and Shi'a have travelled to Issawi's native province of Anbar to express their own distrust of the regime. The top Iraqi Shi'a cleric, usually silent and quietist, Grand

Ayatollah Sistani, has voiced disappointment with Maliki's government and has called for it to respond to the concerns of the protestors.

Muqtada al-Sadr, the leader of Iraq's most radical Shi'a movement, has pointed his finger against Al-Maliki accusing him to be the cause of the current discontent. Although fear of Maliki's authoritarianism is pushing his rivals together, growing sectarian tensions may yet rip Iraq apart.

As a matter of fact Iraqi parliament passed a law recently intended to prevent the Prime Minister al-Maliki from seeking a third term. Maliki's coalition in Parliament boycotted the vote. The parliamentary move came in the aftermath of anti-Maliki street protests that turned violent in Falluja. The bill passed with 170 votes, more than the 163 threshold that was not achieved when the sacking of Maliki was on the agenda last spring.

The Syrian factor

The tensions are on one hand adding to Iraqi government worries that the war in neighbouring Syria will upset Iraq's own delicate confessional and ethnic balance and on the other enticing to possibly interfere in the Syrian game. Mainly Sunni rebels are fighting Syrian President Bashar al-Assad. Hardline Iraqi Sunnis think the potential rise of a Sunni regime in Damascus after Assad will strengthen their own position in Baghdad, where they face a ever more assertive and sectarian leadership in Al-Maliki. As a counterbalance Iraqi Shi'ite might have the temptation of getting more involved alongside the Assad regime, in order to strengthen their position internally and regionally in the Shi'ite axis, becoming more dependent on Iran.

Future Developments

Maliki began his second term as prime minister after inconclusive elections in 2010. The next national election will be in 2014. But important local elections are due to be held in April 2013. Early signs indicate that Al-Maliki is willing to form a large Shi'a coalition, therefore marked by a confessional stigma which will exacerbate the current lingering sectarian war.

If Maliki is willing to continue in his strategy of polarisation along ethnic lines and therefore his current conflict against the Kurds, intimidating Iraqiyya as the only broadly non-sectarian party without building any bridges to disaffected Sunni Arabs in the disputed territories (and possibly also without having the diplomatic buffer of President

Jalal Talabani, whose health problems have deteriorated sharply in recent days), he will probably lack the parliamentary and political basis for such an escalation. The problem with it is that if his approach remains unrealistic, the chances for violence will also rise.

Kuwait

A democratic stalemate

Kuwait's emir Sheikh Sabah al-Ahmad Al Sabah decided to change Kuwait's electoral law this past October 19, arguing that the reform will "protect national unity". This amendment to the electoral law sharpened the political crisis in Kuwait, as opposition groups have, in response, boycotted the elections in December. The resulting political instability is threatening to create a crisis in the country's long history of political participation.

The amendment reduced the number of votes each voter can cast to one, a change from the previous electoral law which allowed each voter in a district to select up to four MPs. Critics claimed that the new electoral system benefits pro-government candidates and will result in a tame parliament that will be unable to stand up to or hold the government accountable. Previous issues over the electoral issue have centred on redrawing of electoral districts.

The emir's decree has caused massive protests among the opposition, one such demonstration was the "March of Dignity" on October 20, the largest political rally in the country's history, with more than 150.000 participants.

After the ballot, the opposition claimed victory for the boycott and warned that the new parliament did not represent the majority of people in the Gulf emirate, at a time of mounting nervousness about political change throughout the region. Officially the turnout was 43%, but opposition supporters claimed it was only 28%. Previous elections, including one held in February last year, saw a turnout of around 60%. Nevertheless the boycott had the effect of depriving the opposition, composed of tribes, Islamists and youth groups, of any representation in the 50-seat parliament.

The Kuwaiti royal family therefore wields now an enormous power even though much more fragile because based on a weaker consensus. The political situation in Kuwait resembles more and more to those of other countries in the region, which are characterized by a growing and increasingly less and less sustainable democratic deficit.

According to the Kuwaiti constitution, the emir is the head of state and his person is “immune and inviolable.” At any rate the Parliament has, to some extent, been able to play a role in holding government accountable through its power to question the prime minister and the members of his cabinet.

For years, the tension between the opposition and the government has grown over the parliament’s limited power and calls for greater government accountability. The emir has dissolved each of the four parliaments that voters elected since 2006. The most recent crisis began in June 2012, when the Constitutional Court dissolved the Islamist-led parliament elected in February. This past October, the emir dissolved the parliament once more.

Liberal critics contend that the Islamist-led parliament has since then focussed on a religious agenda rather than the issues that enabled the opposition to gain a majority. For instance, the parliament passed a bill imposing death penalty on blasphemy — later vetoed by the emir — while some MPs called for legislation to monitor public morality.

In conclusion, the opposition’s decision to boycott the elections might reduce its chances of playing a strong role in holding the government accountable. At the same time, a parliament without the opposition is a warning sign that all is not well in the Kuwaiti version of democracy. This means a stalemate in the political life of the Emirate which is only a preparation for a brewing crisis in the coming months.

Oman

Tradition versus change

The oldest independent state in the Arab world, Oman has been ruled by Sultan Qaboos since he seized power from his father, Sultan Said bin Taimur, in 1970, and is now one of the most long-term ruler of the world.

The Arab Spring left the Gulf state of Oman relatively untouched, with Sultan Qaboos choosing the “Saudi way” of dealing with the looming political crisis, ignited by a growing demand of political participation and reforms to solve the existent democratic deficit. The question now is how strong will be the appeal of tradition vis-à-vis the quest for change, even in conservative, backward and quiet Oman.

A deftly response to mainly economic grievances

Like most of its neighbours, Oman saw street protests last year and earlier this year - though protesters were socially motivated, asking mainly for salary increases and lower living costs, rather than revolutionary change. The vast majority of the population is under 25.

The result, was a certain number of reforms. Sultan Qaboos, created tens of thousands of new government jobs, raised the minimum wage and introduced cost of living allowances for public sector workers. He also changed his cabinet three times in 12 months, pushing out unpopular ministers. This response has been in a certain way an efficient response to popular demands for change.

But analysts expressed concern that the sultan's populist initiatives are merely an attempt to postpone genuine and badly needed structural reforms, especially considering the young age of Omani population and the growing demands of being more connected with the world and the region.

Dissent on air

As in Saudi Arabia, the question at the heart of Omani politics is that one of succession: The sultan is childless but has named no heir, and this affects the future perspective and confidence in the political system. And like the failed dictators of Egypt, Libya and Syria, Qaboos has personally identified himself with the Omani state. It is illegal to insult him, but what counts as an insult is open to interpretation.

And as in Saudi Arabia, dissent has a major electronic dimension. Many are the dissident bloggers. The authorities will generally allow whatever is said in English, but the control is much more tight on what is said in Arabic, following the double standard in Arabic and English programs of Al Jazira. Yet showing one face to the neighbours and another to the world is an increasingly difficult to accept strategy for Oman's globally connected youth, who as in Saudi Arabia has become highly experts in the use of info-technology.

With the monarch about to turn 72, but almost three-quarters of his population under the age of 25, Oman's generation game is becoming a more and more difficult balancing act.

EAU

The Egyptian resentment

Throughout 2011, bilateral relations between EAU and Egypt were strained by mounting concern in the UAE over Egypt's potential warming to Iran. But this was only part of a deeper mistrust between the two countries which is due to the political differences over the Arab Spring. Egypt's new leaders have as a matter of fact cast a watchful eye on the Persian Gulf states because of their previous support for the Mubarak regime. Moreover, the Muslim Brotherhood in Egypt is angered by the Emirates' sheltering of Mubarak-era figures, most notably the defeated presidential candidate and former Prime Minister Ahmad Shafiq.

Islamists versus conservative Gulf States

After their successes in the political elections which followed the Arab Spring, Islamists of various types are now trying to enter – mainly coming from Egypt, Lybia or Tunisia – in the political arena of the Gulf States. In January, the United Arab Emirates arrested a group of Egyptians on suspicion of forming a Muslim Brotherhood cell in the country, prompting tensions with the Muslim Brotherhood-led Egyptian government.

Most of the 94 accused are members of Al-Islah, an organisation linked to the Muslim Brotherhood. They have been in the custody of the Public Prosecution in Abu Dhabi since arrests began last summer.

They were charged with violating Article 180 of the Penal Code, which bans the formation of any political organisation or any organisation that compromises the security of the state, and with having connections with foreign bodies to harm the political leadership. Several of the detainees confessed to setting up a secret organisation with an armed wing with the aim of seizing power and establishing an Islamist state in the UAE.

The property market recovers, and the EAU go nuclear

The biggest story this year will continue to be the development of the UAE's nuclear power plant. The Emirates Nuclear Energy Corporation (ENER) is expected in January to present its application licence for a second reactor. The cost of buying and renting

accommodation in Dubai rocketed last year, with villa sale prices up 23% and further increases expected during the coming months. According to Asteco, the cost of buying a villa in Dubai rose by the highest rate in four years, as the property market began to recover from the global financial crisis. Apartment prices rose by 14%, said the property services firm, while rental costs increased by an average of 17%. Another mega mall is set to be built in Abu Dhabi, as plans were outlined for a US\$1 billion (Dh3,67bn) shopping and leisure complex next to the Sowwah Square financial centre.

Problems ahead, but not in the near future

The single biggest risk factor for the internal balance is the huge immigrants' growth, mainly from the Indian subcontinent and often hired for hard work in the services and building sector. But given the strong stability assured by the financial prominence of Abu Dhabi and the wealth at its disposal – Abu Dhabi owns AVIA, the biggest sovereign fund in the world with its 900 bn dollars – and also considered the good relationships EAU has with Saudi Arabia and Qatar, the situation is to remain stable for the near future.

Qatar

National Pride in exchange for democratic participation

Under Sheikh Hamad bin Khalifa al Thani, the current emir who ousted his father in 1995, Qatar has deliberately pushed itself to the centre of the world's attention and has become a hakam, an Arabic word meaning both “mediator”, and “leader” in the Arab world. A role helped and buttressed by huge gas revenues. By promoting itself as a forum for divergent views and positions on the future of the Islamic world, by hosting the leader of HAMAS while having good relations with Israel, by maintaining strong ties to both Iran and the USA, by calling for the ouster of regimes in Syria, Libya and elsewhere in the Middle East on its popular Al-Jazira Satellite TV station, Qatar has positioned itself as the leader of the Arab world, despite being small and vulnerable.

This investment in national pride was chosen not only for the taste of it, but also and mainly for a cunning political strategy: showing to its fellow citizens how Qatar was highly considered abroad has given the emir the possibility of not being pressured for more democracy.

The Al Jazira factor

When Sheikh Hamad founded Al Jazira in 1996, its main innovation was simply its ability to cover breaking news in Arabic with something approaching Western standards of independence. With Al Jazira's growing influence, however, it also became a powerful element in Qatar's foreign policy. And Al Jazira became two stations. The first is Al-Jazira Arabic service: it avoided commenting and reporting over the protests in Eastern Saudi Arabia and was initially slow on the revolt in Syria, which had been a Qatari ally. Above all, it seemed to ignore the violent repression in Bahrein.

The second is Al Jazira's English-language service: started in 2006, it has been praised in the West for its freedom of expression and courageous coverage of the Arab World. But its audience is predominantly an élite, Western, and international—people who do not pose a direct threat to Qatari or regional stability.

The safe way ahead

Sheikh Hamad's attitude, it seems, has been to promote Qatar abroad as one of the most sophisticated and open societies in the Arab Gulf, while internally keeping its own closed political and social system—and its status in the Islamic world and among the traditional Gulf monarchies—largely intact. Indeed, for all its activist foreign policy, Qatar's concerns are similar to those of other Gulf nations which coordinate together in the Gulf Cooperation Council: military security, food security, social stability, and an economic system that should be sustained, in a hostile climate, over the very long term—even beyond the era of gas and oil. The conditions to attain this goal have been set and they appear to be on solid foundations.

Bahrein

With smaller oil reserves than its neighbours, Bahrein has one of the most diversified economies in the Gulf, with a penchant for financial services. But Bahrein is also one of the most unstable Gulf States in political and social terms. As a matter of facts it is the striking contrast between its Sunni ruling class and its greatly preponderant Shi'a population to make of this tiny but strategically and geopolitically crucial State the “sick man” of the Gulf.

After nearly two years of political unrest, Bahrein's King Hamad has recently called for renewed national dialogue. And while it appears that some groups have agreed to talks, the major sticking point remains: the state will merely serve as the "moderator" and not participate directly in a solution, by this not acknowledging the need to address the imbalance of power between Sunni and Shi'a. Although the crisis in Bahrein deepened a sectarian conflict requiring national reconciliation, the demands of the Sunnis and Shi'ites are for social and political reforms, which only the government can enact.

The leader of Bahrein's main opposition group, al-Wefaq, has called for the crown prince to attend talks aimed at ending nearly two years of unrest

The power is fragmented in two factions

King Hamad bin Isa Al-Khalifa's declaration seemed to follow an offer in December 2012 from the crown prince for national dialogue. But it remains to be seen if the king and the crown prince are representing also other factions or parties, such as the prime minister, or spoke merely on behalf of the faction that has been open to reform.

In the past, two lines confronted themselves on the course to be taken, and talks with the opposition broke down in part because the hard line faction within the government, under the influence of some Saudi Arabia leaders, did not believe in making concessions.

Hardliners - centred around the unelected Prime Minister Sheikh Khalifa bin Salman al-Khalifa, who has been in his post since 1971 - are said to be opposed to a dialogue process which has only just been agreed between the government and six opposition groups. They fear that any concessions will only serve to encourage more demands from opposition leaders they deeply distrust

The status quo is not sustainable

As the two-year anniversary of the Bahreini uprising approaches on the 14th of February, it is becoming increasingly more likely that the status quo is not sustainable in the long term. If the government is calling for dialogue merely to head off protests expected to mark the two-year anniversary, this would be a serious miscalculation of events on the ground, which can have the opposite effect of making the foreseeable protests bigger and more destabilising than ever.