

Saudi Arabia's Severance of Diplomatic Ties with Iran and Its Impacts

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On January 3, Saudi Arabian Foreign Minister Adel al-Jubeir announced Saudi Arabia's severance of diplomatic relations with Iran. The minister also said the Saudi government had asked all Iranian diplomats in Saudi Arabia to get out of the country within 48 hours and ordered Saudi diplomats in Iran to return home. The Saudi decision responded to a development where some Iranian protestors against Saudi Arabia's execution on January 2 of Shiite cleric Sheikh Nimr al-Nimr sentenced to death on terrorism-related charges began rioting and attacked and set fire to the Saudi embassy in Tehran.

Saudi Arabia harshly condemned not only the attack on the Saudi embassy but also Iran's undesirable interventions in Saudi Arabia and other Arab countries, its hostile attitude and its support for terrorism, asserting that Iranian actions had brought about the severance of bilateral diplomatic relations. Following the diplomatic severance, Saudi Arabia announced that it would suspend trade relations with Iran, ban Saudi nationals' trips to Iran and halt bilateral flights (while allowing Iranian pilgrims to visit the holy Saudi cities of Mecca and Medina).

In response to Saudi Arabia's severance of diplomatic relations with Iran, other countries in the Middle East and its vicinity have taken similar actions against Iran. On January 4, Bahrain and Sudan decided to cut diplomatic ties with Iran. The United Arab Emirates then ordered its ambassador in Tehran to return home. Later, Djibouti severed relations with Iran. Qatar and Kuwait ordered their respective ambassadors in Tehran to return home. The Saudi diplomatic severance thus spilled over to other Arab countries or countries controlled by Sunni Muslims.

In a manner to counter the Saudi diplomatic severance, Iran, while regretting the attack on the Saudi embassy, branded Saudi Arabia's execution of Shiite cleric al-Nimr as a great mistake and warned that the spilled blood of the Shiite leader would stain the collar of the House of Saud and bring divine retribution. Iran thus strongly condemned the Saudi action. Iranian Foreign Minister Mohammad Javad Zarif criticized Saudi Arabia as running counter to détente in the Middle East. In Iran, demonstrations to protest against Saudi Arabia continued for three days on end. In Baghdad, the capital of Iraq where Shiite Muslims are dominant, 5,000 citizens staged demonstrations to demand Iraq's severance of diplomatic ties with Saudi Arabia. Demonstrations against Saudi Arabia took place in Lebanon as well. Iran's protest against Saudi Arabia has thus spilled over to other countries.

Saudi Arabia and Iran are great powers representing the Middle East and among the largest

oil producers in the world. Due to religious, racial, historical and cultural differences, the two countries have rivaled each other historically and at present. They have disputed over the Middle East's destabilization triggered by the Arab Spring democracy movements, the emergence and rise of the Islamic State militant organization and anti-IS operations, Syrian turmoil and deals with the Syrian Assad government, the Yemeni civil war and other problems. A seeming proxy war between Saudi Arabia and Iran has been seen in Syria and Yemen occasionally. Growing tensions between Saudi Arabia and Iran over these problems might have accelerated on Saudi Arabia's execution of Shiite cleric al-Nimr, Iranian rioters' attack on the Saudi embassy and the severance of bilateral diplomatic relations.

As noted above, the tensions between the two countries have spilled over to the whole of the Middle East and its vicinity, destabilizing the region. As further destabilization of the already unstable Middle East is a grave problem for the world, the United States and Russia that have close relations with Saudi Arabia and Iran have worked on the two Middle Eastern countries to promote bilateral talks, indicating their attempt to make a breakthrough and prevent Saudi Arabia-Iran relations from deteriorating further. But future developments are unpredictable. On January 7, Iranian state-run television reported that the Iranian embassy in Yemen had been attacked by Saudi military aircraft implementing military operations against the Houthi militant Shiite group in Yemen. The Saudi side flatly denied the report. The exchange of harsh accusations has heightened fears of unforeseen events and their tensions. The further deterioration of Saudi Arabia-Iran tensions is a grave problem to shake the whole of the Middle East, providing a very important geopolitical risk for analysts trying to predict the future international situation.

Essentially, the emergence of the serious geopolitical risk involving two of the world's largest oil producing countries can create tensions in the international oil market to trigger crude oil price hikes. At present, however, such development has not been seen. Rather, crude oil prices have accelerated their fall since the beginning of this year. On January 7, the benchmark futures price fell to \$33.27 per barrel for West Texas Intermediate and \$33.75/bbl for Brent, continuing a downward trend since the start of this year. The WTI price dropped below \$33/bbl temporarily in off-hours trading to a new post-Lehman Shock low. The level was the lowest in 12 years since 2004. The first factor behind crude oil prices' continuous decline coming despite growing tensions between Saudi Arabia and Iran is an existence of substantial over supply. The second is the destabilization of the world economy amid the resurgence of fears about the Chinese economy, which has caused a global stock market decline and a capital flight from risk assets. It is also important that the Saudi Arabia-Iran confrontation has not affected their and regional oil supply.

We must also pay attention to the point that the intensifying confrontation between Saudi Arabia and Iran can serve as a geopolitical risk leading to oil supply fears while making it difficult for the major oil producing countries to cooperate in adjusting oil production in response to the oil glut. It is difficult to predict how the deterioration of Saudi Arabia-Iran relations would influence Western countries' plans to lift economic sanctions on Iran. Considering the new development involving Saudi Arabia and Iran, we must analyze what oil production policy Saudi Arabia would take if Iran comes back to the international oil market with the sanctions lifted. If their confrontation

intensifies their race to expand their oil market shares, it may further dampen crude oil prices. Anyway, oil price moves will depend on future developments. We must pay attention particularly to how the geopolitical risk would be intensified and how stable oil supply in the two countries and the region would be affected.

The year 2016 saw a turbulent opening filled with world-shaking developments including the world economy risk caused by fears about the Chinese economy and North Korea's fourth nuclear explosion test as well as the severance of Saudi Arabia-Iran diplomatic ties. We would like to carefully watch future developments.

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