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Egypt, Saudi Arabia and the UAE: The End of an Alliance

Divergences of interest in bilateral relations offer opportunities
for Germany and the EU

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Over the past 10 years, the *de facto* alliance of the governments of Egypt, Saudi Arabia and the United Arab Emirates has exercised significant influence over developments in the Middle East. The common goal has been to prevent democratic transformation, stop the rise of political Islam and counter the influence of Iran and Turkey over the region. But joint regional political interventions have so far had little success. Moreover, divergences of interest in bilateral relations between these authoritarian Arab states have come to light in recent months. The potential for conflict has become evident with regard to both economic and regional political issues and is only likely to increase in the future. For Germany and the European Union, these divergences of interest between the three countries offer an opportunity to pursue their own goals in the region.

Since the military took power in Cairo in July 2013, Egypt, Saudi Arabia and the United Arab Emirates (UAE) have been considered close allies. Riyadh and Abu Dhabi provided extensive financial aid in support of the new Egyptian leadership under Abdel Fattah al-Sisi, a former defence minister and the current president, enabling him to consolidate his rule. In the years that followed, the three authoritarian states coordinated their regional and security policies. The common interest was to thwart democratic efforts in the region, stop the activities of the moderate Islamist Muslim Brotherhood, which is perceived by Abu Dhabi and Cairo,

in particular, as posing a threat, and counter the influence of Turkey and especially Iran over the region, which, above all, Riyadh sees as the main security challenge.

There are three particularly striking examples of the close cooperation between the members of this *de facto* alliance. First, in March 2015, Saudi Arabia and the UAE, with political and air and naval support from Egypt, launched a military intervention against the Iranian-allied Houthi militia in Yemen. Second, since 2014 the UAE and Egypt have been supporting the Libyan militia leader Khalifa Haftar in his power struggle against the government in



Tripoli; and in 2019–20 they engaged in a proxy war with Turkey, which had rushed to its aid. Third, all three states imposed a blockade against the Emirate of Qatar in June 2017 in a bid to force Doha to downgrade its relations with Iran and Turkey and stop supporting the Muslim Brotherhood.

However, these interventions were unsuccessful. In Yemen, the Houthi militia was able to defend itself against the Saudi-Emirati military coalition – not least owing to help from Iran – and brought pressure to bear on the two Gulf monarchies through repeated missile attacks. Riyadh and Abu Dhabi were forced to change their policy and, since no later than the beginning of this year, have ceased pursuing a military victory in favour of reaching an understanding with both the Houthis and Iran. In Libya, Abu Dhabi and Cairo succeeded in strengthening General Haftar militarily but were unable to help him take power; instead, Turkey consolidated its influence in the west of the country. The Qatar blockade was another failure. Lifted at the beginning of 2021 – evidently at the instigation of Saudi Arabia, in particular – it served only to push Doha closer to Turkey once again.

In the meantime, the willingness of the three regimes to act together on regional political issues seems to have diminished significantly. What is more, differences of interest in their bilateral relations are becoming increasingly evident.

Saudi Arabia and Egypt: Disgruntlement owing to island dispute and withheld economic aid

Following the change of ruler in Riyadh at the beginning of 2015, the Saudi leadership's view of Egypt altered somewhat. The new King Salman and his son, the current Crown Prince Muhammad Bin Salman, opted not to simply continue the unconditional financial aid that had been granted to Cairo after the military takeover in 2013. While, in July 2015, the two countries signed the Cairo Declaration, in which they agreed to form a stronger economic and

security partnership, it quickly became clear that Riyadh was demanding something in return for new aid.

On the occasion of the state visit by the Saudi king in April 2016, the Sisi administration announced that it would transfer two islands in the Red Sea – Sanafir and Tiran – to the Kingdom. Saudi Arabia had laid claim to these territories, which had always been seen and controlled by Egypt as its own national territory. The decision caused considerable resentment among the Egyptian population. While the initial protests were suppressed by police violence, the relinquishment of territorial control meant a considerable loss of image for the Sisi administration, as well as for parts of the country's security establishment. This is one explanation why the islands have not yet been "returned". However, the real reason is probably the Egyptian government's concern that Saudi Arabia could significantly reduce its financial support once it has control over the islands.

Indeed, there has been ever more criticism from the Saudi side in recent years about Egypt's development deficits. At the same time, journalists close to the royal family have criticised the role of the Egyptian military in the economy. At the beginning of 2023, Saudi and Egyptian commentators with close ties to their respective political leaderships exchanged verbal blows. And it did not stop with such exchanges. Earlier, in 2022, the Kingdom had transferred US\$5 billion to Cairo in the form of central bank deposits and thereby initially supported the introduction of a new International Monetary Fund (IMF) aid programme for Egypt. But so far, further investment pledges worth US\$10 billion, which the IMF described as "critical" for the financing strategy of the programme, have been fulfilled only to a small degree.

Egypt and the UAE: Conflict of interest in regional conflicts

As far as the extension of loans is concerned, the UAE has been more important

for Egypt over the past two years or so than has Saudi Arabia. According to Egyptian central bank statistics, Abu Dhabi now holds around 9 per cent of foreign debt and Riyadh 7 per cent. With regard to direct investment, the Emirates are also in first place. While Saudi Arabia has publicly criticized the Egyptian government's economic policy in recent years, the same criticism has not yet been heard from the UAE. Nevertheless, the Emirates, too, are increasingly dissatisfied with the economic course being pursued by Cairo and have apparently been pushing behind the scenes for the IMF to adopt a tougher stance.

However, it is, above all, divergences of interest in regional policy between the two states that have come to light in the past two years. In Libya, the UAE continued to maintain friendly relations with the head of the unity government, Abdel Hamid al-Dabeiba, in the spring of 2022, while the Egyptian leadership rejected his legitimacy and supported Interior Minister Fathi Bashagha for the office of prime minister.

And the interests of the two countries have diverged even more sharply in Sudan, where the army and the paramilitary Rapid Support Forces (RSF) have been facing each other in an armed conflict since April 2023. For years now, Egypt has been supporting its southern neighbour's regular forces, led by General Abdel Fattah al-Burhan. Small Egyptian troop units were even stationed at Sudanese army bases, at least when the fighting erupted initially. The UAE, in turn, maintains close relations with the head of the RSF, Mohamed Hamdan Dagalo (known as Hemedti). He controls significant parts of the Sudanese economy, including the country's all-important gold trade, which in the past was handled through Dubai. Neither Cairo nor Abu Dhabi is likely to have any interest in the armed conflicts between their respective Sudanese partners. But it is obvious that they have not been able to coordinate their actions vis-à-vis this ongoing military struggle.

In addition, the regional conflict over the use of water from the Nile has increasingly put a strain on Egyptian-Emirati relations.

Since 2011 Ethiopia has been pushing ahead with a large dam construction project on the upper reaches of the Nile, which Egypt sees as endangering its water supply. The UAE, which is striving for neutrality in this water dispute, has not adopted the Egyptian position. Instead, to the annoyance of Cairo, it is supporting the Ethiopian government with extensive financial aid and even supplied it with combat drones during the civil war in Tigray.

Finally, the increasingly close partnership between the UAE and Israel is a powder keg for future bilateral relations. For one thing, Cairo presumably fears losing more regional influence, not least given its long-standing role as "Israel's most important Arab interlocutor". Further, this partnership could lead to new transport routes and pipelines between the Gulf states and the Mediterranean, which would have a negative impact on Egyptian revenues from transit traffic through the Suez Canal.

Saudi Arabia and the UAE: Growing economic competition

Riyadh and Abu Dhabi began coordinating their regional policies immediately after the start of the so-called Arab Spring. That much was evident as early as 2011 during the violent suppression of protests in neighbouring Bahrain – that is, two full years before the two states supported the Egyptian military's takeover of Cairo. But it was not until the change of throne in Riyadh that the two ruling houses became closer. Initially, what appeared to be the good personal relations between Muhammad Bin Salman and the then Crown Prince of Abu Dhabi, on the one hand, and the de facto ruler of the UAE, Muhammad Bin Zayed, on the other, led to the close coordination of the two countries' regional policies. However, this did not last long.

From 2019 onwards, it became increasingly evident that there were coordination problems over the Yemen conflict that could be explained by the different interests of the two countries. For Saudi Arabia, the

fight against the Houthi militia, which was seen as Tehran's proxy in the neighbouring country, had top priority. But the UAE wanted, above all, to gain control of the southern coastal region, which was important for its port policy, and to weaken the Yemeni branch of the Muslim Brotherhood. Moreover, there were also differences between the two partners that quickly became apparent during the Qatar blockade. At an early stage, Riyadh wanted to resolve the conflict with the small neighbouring country, while Abu Dhabi was intent on its complete isolation. The decisive factor here was that the latter ultimately considered Qatar's support for the Islamist Muslim Brotherhood to be much more threatening than did the former.

However, the main conflict of interest between the two Gulf monarchies is probably rooted in their economic policies. Both states are pursuing an ambitious development model aimed at preparing their economies for the post-oil era. Through gigantic infrastructure projects and targeted state investments in strategic economic sectors, the two countries want to increase their attractiveness as investment locations. The UAE, which took the first steps in this direction as early as in the 1990s, has, for example, developed Dubai into an international financial and trading centre, whereas a similar transformation process got under way in Saudi Arabia only when Muhammad Bin Salman de facto assumed power in 2015. The Saudi ruler is now doing his utmost to make up for the country's lagging development and is thereby acting at times against the interests of the smaller neighbour.

For example, in 2021 the first-ever ultimatum was given to foreign companies to relocate their regional headquarters to the Kingdom or be excluded from public tenders. Since most international companies operating in the Gulf region are headquartered in Dubai, the Regional Headquarters Programme is directed primarily against the UAE. In addition, there is the Saudi side's selective annulment of existing customs exemptions in interstate

trade and its sectoral development programmes, which are creating regional competition, including in the tourism and transport industries. In spring 2023, for instance, the Saudi sovereign wealth fund announced the establishment of a new airline that would provide serious competition in the future for the already well established airlines in Dubai and Abu Dhabi.

But it is, above all, in the oil policy of the two states that conflicts are becoming increasingly evident. Saudi Arabia, as the largest oil exporter both worldwide and within the Organisation of the Petroleum Exporting Countries (OPEC), is striving to ensure the market price for crude oil remains as high as possible, a stance that requires the organisation to make production cuts. By contrast, Abu Dhabi is focused on expanding its production infrastructure and thus on increasing its exports. As a result, it has not only become ever more difficult in recent years to reach agreement on a common production policy within OPEC; it is also extremely unlikely that players on the international oil market could be convinced of the credibility of any such agreement.

Escalation potential

Egypt, Saudi Arabia and the UAE are home to more than one third of the Arab world's population, and the three countries generate well over half of the region's gross domestic product. Fundamentally, there is a not insignificant potential for escalation owing to the divergences of interest between the three states. And escalation could have repercussions far beyond the region.

For example, Egypt could be driven into insolvency if the Gulf monarchies were to suspend their financial aid; and the resulting socio-economic upheavals in the most populous Arab country (around 110 million inhabitants) could impact on the stability of the political system or at least put massive pressure on the current leadership under President Abdel Fattah al-Sisi. It is also conceivable that Egypt might use direct mili-

tary intervention in order to try to change the balance of power in Sudan in favour of the regular armed forces, which are allied with Cairo. Such a step would severely strain relations between Cairo and Abu Dhabi. Finally, competition between Saudi Arabia and the UAE could weaken the economic area of the Arabian Peninsula – through the establishment of tariff and non-tariff trade barriers or even border closures, among other things – while a UAE withdrawal from OPEC would plunge the oil cartel into an existential crisis.

Assuming that the three countries' decision-makers will behave rationally, such escalation scenarios are unlikely. The costs would be too high for all three states, which are closely linked through economic and financial ties. And, despite diverging interests, they are likely to continue to coordinate on individual issues. Their differences in oil policy notwithstanding, the two Gulf monarchies have been seen as acting decisively as brakes at the international climate negotiations when it comes to phasing out fossil fuels; and it is likely they will also coordinate their positions at the United Nations Climate Change Conference in Dubai in December (COP 28). Nevertheless, escalation scenarios in bilateral relations cannot be ruled out entirely. In the highly personalised authoritarian systems of rule in each of the three states, decisions have not always been taken based on rational considerations of interests, as illustrated, for example, by the blockade of the Emirate of Qatar.

Conclusions for German and European policy

Germany and the EU should see the divergence of interests between Egypt, Saudi Arabia and the UAE as an opportunity to exercise their own influence on developments in the region. Owing to the authoritarian systems of rule of the three Arab states, there are fundamental differences between those countries and the Europeans, especially with regard to human rights

issues. In other contexts, however, there are convergences of interest between Germany and its European partners and one or more of the three governments; and it is on this basis that the possibility for targeted cooperation should be explored or existing cooperation expanded. This can be illustrated by two examples.

First, the Europeans and the two Gulf monarchies share an interest in reforms as a means of stabilising Egypt's reeling economy. In the event of Egypt's being driven into insolvency, Saudi Arabia and the UAE, as the country's largest state creditors, would suffer considerable economic damage. For the Europeans, the state bankruptcy of the most populous Arab country would be disastrous, not least because of the social upheaval and the accompanying migration pressure. It is therefore important for both sides to press Cairo to implement reforms – for example, in the context of the IMF agreement. A prerequisite would be withdrawing the military from the Egyptian economy, something that the Sisi administration has so far been unwilling to do but which the Gulf monarchies have now recognised as necessary, too. Through a joint, coordinated approach with Riyadh and Abu Dhabi, the EU could exert much more pressure on Cairo than has been the case so far.

Second, the Europeans have similar interests to those of Saudi Arabia with regard to conflict resolution in Sudan. For Riyadh, stability and security in the Red Sea region is essential, not only as regards shipping but also for the implementation of its ambitious development plans, especially the expansion of coastal tourism. Moreover, it is important to safeguard investments already made in the Sudanese economy. Unlike Cairo and Abu Dhabi, whose interests are associated with one or the other of the two parties to the conflict, Saudi Arabia maintains good relations with both the Sudanese armed forces and the RSF. Given the bilateral tensions described above, it is unlikely that Riyadh would have any interest in Egypt or the UAE expanding their influence in Sudan in the event of their

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respective allies making military gains on the ground. From the EU's point of view, too, the military superiority of one or the other of the two conflict parties would not be a positive development, since military stalemate offers the opportunity to strengthen the role of the civilian forces as a mediator between the two sides. So far, Saudi mediation efforts have not been successful, but the Europeans should nonetheless continue to support such initiatives. And in doing so, they should lobby Riyadh to ensure that a resolution to the Sudan conflict reached with the participation of Cairo and Abu Dhabi is given higher foreign-policy priority than seems to have been the case so far.

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