

The GCC-Qatar rift is a bad precedent

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- With a global back drop of record low tolerance for non-cooperation on combating terrorism, Qatar is being seen by the United States as “non-compliant”.
- Undermining fledgling states is a bad precedent that compromises the process of institution building in a region where state partners are needed in the fight against terrorism.
- As the only potentially effective mediator, the United States must deploy a steady hand, and a better understanding of the history of regional conflicts.

Global Backdrop: Why now, and why Qatar?

The backdrop to this event in 2017, is a significantly reduced level of global tolerance for non-collaboration in combating terrorism, as the fallout from the Syria war has hit home in many Western cities. Qatar is being seen by the United States as “non-compliant” and that is the Saudi hook for the Gulf Cooperation Council initiative to marginalise it.

A further global dimension relates to Western leaders, perhaps for the first time, overtly downgrading the importance of upholding certain human rights practices, as domestic security prerogatives are seen to necessitate harsher arrest measures, for example. This stance was, rightly or wrongly, articulated by British Prime Minister Theresa May during her general election campaign earlier this month. Some are willing to express this view, some are not, but the world has certainly entered an era of even lower tolerance for anything resembling Islamic terrorism.

Zeroing in on the GCC, there has been a festering rivalry between Saudi Arabia and the UAE on one hand, and Qatar on the other, for decades. It reached a peak in 2014, and was subsequently resolved when threats were made to expel Qatar out of the GCC. At the time, Qatar agreed to some conditions, which met some of the requirements set out by Saudi Arabia including stopping criticism of certain regimes, via Aljazeera. So GCC tensions with Qatar are nothing new.

Qatar’s penchant for unconventional moves is also not new. This includes departing from the GCC “party line” while the GCC countries often refer to themselves as a “family” of tribes. Qatar has tried to position itself as an “Austria” of sorts - neutral but at the same time charting its own foreign policy line, buttressed by its financial muscle -- *nouveau* muscle in the eyes of players like Saudi Arabia and Kuwait, for example; Qatar found gas several decades after those states had found oil and deployed its proceeds, including in foreign investments and trophy assets. But in small tightly knit “families”, pushing the envelope always comes at a risk. Qatar was aware of this and Saudi Arabia has always had low tolerance for such behaviour. The fact of the matter is that this is not a pluralistic region, at least not yet. Independent voices, although fairly well accepted and respected in the West, are not easily tolerated in the GCC.

Table 1 – Qatar Macroeconomic Indicators¹

	2013	2014	2015	2016e	2017f
Real GDP Growth (%)	4.6	4.0	4.7	3.2	3.4
Crude Oil Production (M bpd)	0.7	0.7	0.7	0.6	0.6
Oil GDP Growth (%)	0.2	-1.5	-0.2	-0.8	0.9
Non-oil GDP Growth (%)	11.0	10.6	7.8	6.1	5.7
CPI Inflation (%)	3.1	3.0	1.8	3.0	3.1
Fiscal Balance (% of GDP)	20.5	14.7	4.5	-8.2	-4.5
C/A Balance (% of GDP)	30.8	26.1	5.0	2.0	5.0
Total Gov't. Gross Debt (% of GDP)	32.1	31.7	39.8	54.9	66.2
Total Gross Extrn'l Debt (% of GDP)	80.4	79.2	106.0	130.7	135.4
Gross Official Reserves (Mos. of Imports)	8.4	7.8	7.1	6.1	6.1
Nominal GDP (USD B)	202.6	209.9	166.9	156.6	170.8

It is also not new knowledge, that the Qatari stance extended to financing various players, some for very good reasons and with good outcomes -- Lebanon and Gaza reconstruction, some African and Afghani initiatives, etc. But other Qatari initiatives have wittingly or unwittingly countered, confused, and adversely impacted regional struggles such as the Saudi attempt to influence Syria and the Yemen war (supported by Iran, a Qatari “ally”). Another example is the financing of certain Libyan factions and Qatari support for the Muslim Brotherhood government in Egypt.

Circumstances suddenly shifted again against Qatar, after the arrival of the Trump administration and the recent visit to Riyadh, which buttressed certain regional leaders, but not others. We had already seen immediate instances of emboldened decision making after Trump’s visit, in Bahrain for example through a further crack down on the Shi’a, practically 24 hours after he had left the region, and the new, fairly draconian NGO law in the making in Egypt.

This situation is dangerous.

Where things stand today

Firstly, this could set a very bad series of precedents. If Qatar is the target today, the question is who would be next? The fact of the matter is that the rest of the regimes in the region resemble Qatar in more ways than one. And if the severe outcome of regime change being peddled on various media outlets which have become as audible as Aljazeera, actually takes place, this only highlights the vulnerability of other GCC states, not least in the eyes of their own citizens. Punishing fledgling states wholesale is not a good precedent for state and institution building, certainly not in a region where state cooperation is key to combating global terrorism. I believe Tillerson understands this. I understood it as I watched Iraq implode irreversibly.

Another key question is what the staying power of this new US backing for Saudi Arabia and the UAE against Qatar is. We have already seen the Trump administration do a series of *volte-faces* on various key issues, the most recent being the decision on the location of the US Embassy in Tel Aviv. The agonising polemic around this, since his campaign, was an unnecessary source of confusion on both the global and regional arenas, including at the State Department. Other major matters that were the subject of *volte-faces* were the One China policy, his stance toward NATO and the decision to

¹ Arabia Monitor; IMF.

withdraw from the Paris agreement on climate change, COP21.

The Trump administration is tackling centuries-old conflicts, such as the Sunni-Shi'a divide in the Muslim world, with novel methods such as tweets, and a thin administration of heeded experts. The decision to isolate Iran and its friends, Qatar being considered one of them, is part of this approach. But if isolating Iran is only part of the objective, and if the remainder of the objective is to defeat terrorism, how does the undermining of non-conformist states wholesale promote stability in the region and beyond? Would this not create more pockets of non-conformism and add to regional volatility?

What is the economic impact?

The short to medium term economic impact on Qatar will be expensive but bearable because of the tiny size of the state *vis-à-vis* its resources. Qatar can find alternative trade routes; it is already using Iranian air space and has the option of using their ports. Inflation is low in Qatar, and price controls can prevent extortionary profiting from the sale of goods in high demand. Qatar's reserves can defend the currency, even though the pressure on it could rise further.

Spreads on Qatari credit default swaps have already widened, and could widen further with some (minor) further impact on ratings. Additionally, stock market volatility has started to play up. As observed, oil prices spiked briefly, but rapidly lost ground when the market read the conflict as a threat to the OPEC deal, rather than as a serious new geopolitical risk that is likely to sustain upward price pressure. Qatar is the smallest oil producer in OPEC.

But there will be collateral damage, such as on regional trade, not only on Qatari trade. The question regarding gas supplies to important trade partners such as the UK, Japan, but also to the UAE through the Dolphin pipeline will become an important one overtime. These countries will soon start to ponder how best to secure their gas demand even though gas markets react more slowly and contracts are long-term. Overtime, the blockade will no longer just be a Qatari problem, but also an international one. The impact on the Qatari currency, could also spill over into neighbouring states as could the impact on regional equity markets given how brittle things are in this oil price cycle. The impact on regional businesses and families has already done so, and will create long-term mistrust. Some multinationals in the UAE are keeping a watchful and worried eye on the situation. This is not good for FDI inflows into the region as a whole.

The Political Dimension: What next?

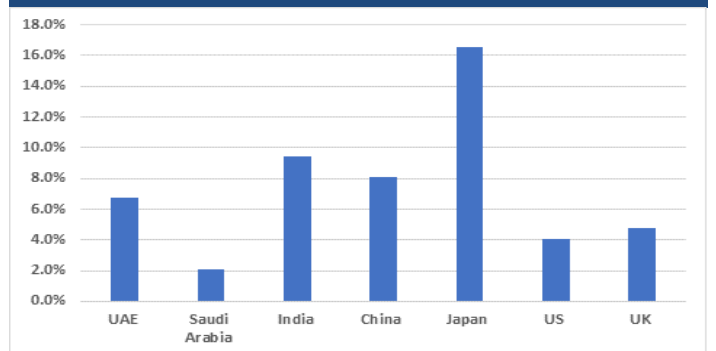
The Omanis will probably stand on the sidelines for the moment, surely wondering whether the ire will reach them. So, they are unlikely to have the same role they played in thawing previous tensions, alongside the Kuwaitis. And today, the Omanis have even closer relations with Iran, ties they need for investment and growth purposes, which they also desperately need.

² The Volatility Institute.

Figure 1 – Qatar 5 Year CDS Spread²



Figure 2 – Qatar Trade with Major Partner Countries (As % of Total Qatar Trade with World)³



Tillerson has also said that the scuffle will not come in the way of regional cooperation with the United States in the fight against terrorism. So, the priority is clear and the region may or may not get support for resolving this rapidly, as the Kuwaitis shuttle back and forth. This also means that concessions will probably have to be made on both sides of the conflict, after much damage will have been inflicted in the interim. We are already seeing a change in language, around whether or not this constitutes a “blockade”. These are encouraging signs, but a lot remains to be done, and much cannot be undone as easily.

Moreover, how will US policy stances be aligned, between the Pentagon's long-standing position regarding the value of the Al-Udaid air base, Tillerson's call for dialogue, and Trump's finger pointing tweets? The approach of “are you with us, or against us?” harking back to the days of President Bush II, appears to be reemerging to further deepen regional rivalries rather than solve them. The question today is whether the US will be a constructive mediator in this conflict, in detail, not just in the broad lines. Will the US have a steady enough hand, or will it simply divide and rule, and rule only temporarily (4 years?) in a region plagued by centuries of discord?

The situation is critical, and if not resolved over the next few weeks it will cause serious damage to the economies and state institutions of the GCC and the region beyond. Contagion will be the leitmotif, in multiple ways. In the meantime, it is not clear how this will have advanced the cause of fighting terrorism in the world.

³ Arabia Monitor; The World Integrated Trade Solution (WITS), World Bank.

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