Recent news on ports and shipping in the Gulf has offered some stark contrasts. On the one hand, a landmark reached in Qatar's project to equip Doha port to receive giant cruise ships, and the announcement of a slew of deals for Chinese companies to invest in projects serving ports in the UAE and Saudi Arabia; on the other, a further downturn in container traffic at Dubai's Jebel Ali and Mina Rashid ports – and the ramping up of tensions in the Strait of Hormuz with Iran's seizure of a UK-flagged tanker on its way to pick a cargo of petrochemicals in Saudi Arabia.

Gulf port development plans targeting diversification, Belt and Road business

Since Dubai launched the Port of Jebel Ali in the 1970s, ports and associated free zones and industrial areas have mushroomed around the Gulf region. The rhythm of these developments has been influenced by the fluctuations in world energy markets and by the succession of political and security crises in the region. There is no shortage of ambitious new development plans, some tied to the various "visions" of economic diversification, others based on an aspiration for the region to be a vital hub in the Chinese Belt and Road Initiative. However, their viability will depend, to a large extent, on geopolitical and economic factors.

Dubai's initial success in this sphere has become a model to be emulated and rivalled. One of the emirate's most determined competitors has been its neighbour, Abu Dhabi, whose crown prince, Mohammed bin Zayed, was in China in late July to drum up more investment.

The Khalifa Industrial Zone Abu Dhabi (KIZAD), located to the south-west of Jebel Ali on the Abu Dhabi side of the border between the two emirates, has an area dedicated to the implantation of Chinese industries targeting regional and global markets. Hong Kong-based Cosco Shipping has recently started operations at a new container terminal that it has set up at Khalifa Port, which serves KIZAD, as well as operating as a potential regional and global hub. Chinese investors are also heavily involved in the development of the Duqm port and industrial zone on Oman's Arabian Sea coast.

Another major logistics project in which Chinese support is being canvassed is the Saudi Landbridge, a proposed freight rail link between Jeddah, on the Red Sea, and Dammam, on the Gulf, via Riyadh. The scheme has the potential to revolutionise transport in the Arabian peninsula: in addition to significantly reducing freight carry times between Jeddah and the Gulf coast, the line will provide an alternative means of accessing the Gulf ports without going through the Strait of Hormuz. Its futuristic appeal has also been reflected in recent discussions about it using the Virgin Hyperloop technology, envisaging speeds of up to 1,080 km per hour.

However, efforts to attract investment in the Saudi Landbridge date back almost 20 years, and the recent memorandum of understanding between the kingdom's Public Transport Authority and Chinese firms comes after dozens of similar initiatives have come to nothing.

DP World reports drop in throughput this year, flags challenging market conditions

Dubai retains the advantage of the first mover in relation to these new rivals, and DP World, formed in 2005 by the merger of Dubai Ports Authority and Dubai Ports International, has evolved into one of the leading global port operators. However, DP World's home operations in Jebel Ali and Mina Rashid, which account for about one-fifth of its total handling volume, have been struggling of late. According to its most recent financial statement, DP World's UAE container volumes fell by 7.4% year-on-year in the first half of 2019 to 7.74m twenty-foot equivalent units (TEUs). The company attributed this drop in business to "a loss of lower-margin cargo and difficult market conditions." Its overall volume of container handling rose by 0.5%.

DP World did not elaborate on the nature of the difficult market conditions facing Dubai's ports, but it is likely that these include the embargo on trade with Qatar and the impact of the US sanctions on Iran.

The Qatar embargo, which was imposed by Saudi Arabia, the UAE, Bahrain and Egypt in mid-2017 in an escalation of long-standing differences over regional political issues, has hit businesses using Dubai as a base for servicing the Qatari market, including Dubai-based container transhipment. Qatar has sought to adapt by developing new supply chains and boosting its own capacities.

Qatar ports flourishing in spite of trade embargo

Qatar's own ports have been thriving since the imposition of the blockade, and QTerminals, an affiliate of Mwani Qatar (the state ports company) has recently embarked on a project to build a second container terminal at Hamad Port. The expansion of the Doha Port cruise ship terminal is geared to the anticipated surge in visitors to Qatar as part of the 2022 FIFA World Cup.

Qatar’s success in dealing with the impact of the embargo means that it might be hard for Dubai to recoup its lost business if this dispute is ultimately resolved.

Will tensions with Iran deter investors from the region?

Iran presents challenges of an altogether different order of magnitude: For strategic investors in Gulf trade, services and industry, the Iranian market, with its population of 83m and recent history of economic under-achievement, presents huge opportunities. But the pursuit of those opportunities has been hampered by recurrent political and security crises and by the cycle of sanctions. In the current environment of tensions in the Strait of Hormuz and soaring war-risk premiums for Gulf shipping, building an investment strategy on using the Gulf as a base for trade within the region, including Iran, and on a global scale does not seem advisable. Yet this may not deter investors with a longer perspective.

David Butter is an analyst of the political economy of the MENA region, with a special interest in Egypt. He is an associate fellow in the Chatham House MENA programme and was previously the regional director for the Middle East at the Economist Intelligence Unit and editor of MEED magazine.

Featured Image © Shutterstock.com

