

*The past week has witnessed an unprecedented escalation of tensions among the Gulf Cooperation Council states, culminating with Saudi Arabia, the United Arab Emirates, and Bahrain severing ties with Qatar.*

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The Saudi, Bahraini, and Emirati efforts to isolate Qatar diplomatically and logistically from its Gulf Cooperation Council partners highlights structural weaknesses in many of the Gulf states, not just Qatar.

There are a number of shared weaknesses within Gulf economies, mostly because of their dependency on revenue from [oil and gas exports](#), but also because they do not produce their [own food](#), they are extremely sensitive to reliability of electricity generation for both power and [water](#) desalination, their geography leaves them very sensitive to threats to air and sea port access, and their labor markets are dependent on foreigners. This island mentality and structural dependency can be exploited, but it can also be a source of unity, as was the intention of the formation of the Gulf Cooperation Council.

One of the GCC's most successful efforts at economic integration has been at the individual level, in which citizens of one member state have [equal rights](#) to purchase property, access state health care and insurance privileges, the right to wholly own and operate a business, and the right to hold stock ownership of a company in another member state. The ongoing tensions between Qatar and its neighbors in Saudi Arabia, Bahrain, and the United Arab Emirates will extract a heavy price on Gulf citizens, especially on the [free mobility](#) of those living, working, and studying in a neighboring country. Qatari citizens have [two weeks to leave](#) the UAE, Saudi Arabia, and Bahrain, while diplomats were offered 48 hours.

The shared goal of [expanding private sector growth](#) across the GCC states is threatened by retaliatory action against citizens living, working, and investing in a neighboring country. Moreover, the burgeoning sense of [khaleeji identity](#), in which GCC citizens might foster a collective Gulf identity, bolstered by increasing [intermarriage](#), studying abroad, and business ties, is under threat. For university students, young families, and entrepreneurs in the Gulf, recent events will be a deterrent to

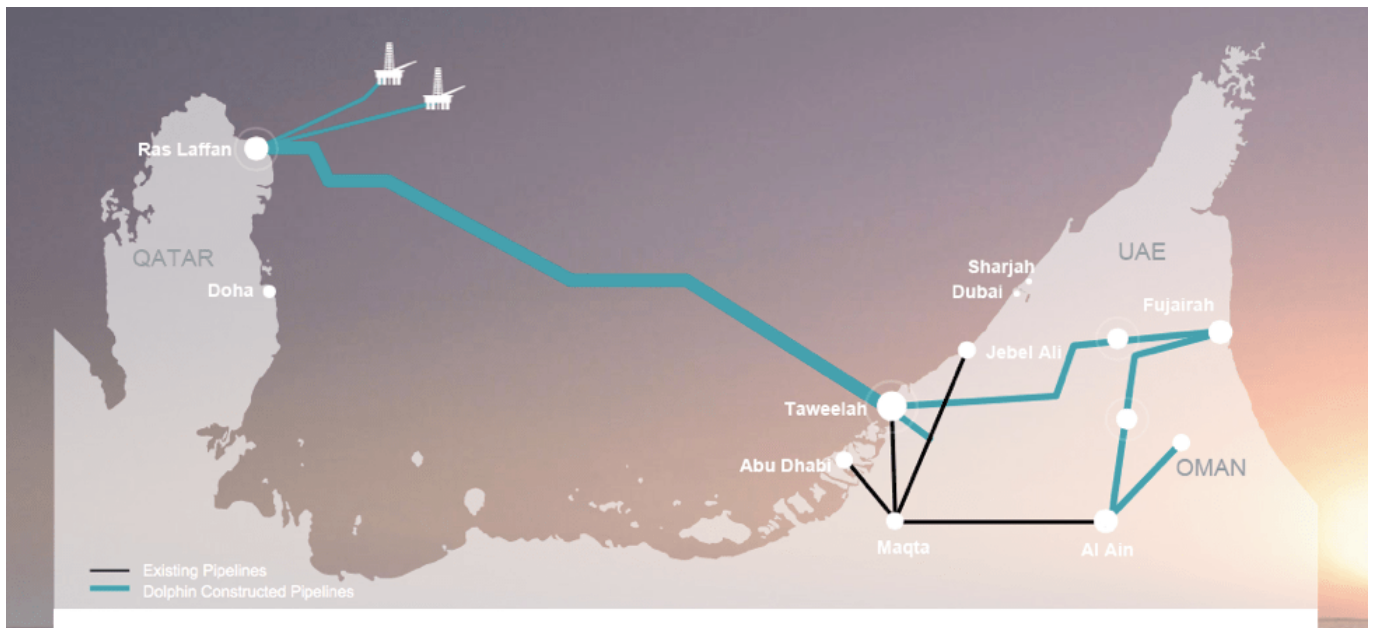
exchange and travel for some time to come.

Perhaps right now, the greatest weakness on display across the Gulf is state capacity in strategic communications, and a reciprocal low level of social trust within Gulf societies. The [hoarding behavior](#) on display in Qatar speaks to natural reactions to a sense of [shortage and siege](#), but also a deeper lack of [confidence in government information](#) and strategy.

Historically, GCC [economic integration](#) leaves much to be desired, as trade flows between the Gulf states continue to grow at a slow pace. However, what is [traded](#) between GCC states is vital, particularly food and gas. [Food price inflation](#) has been a problem, especially for Qatar, for the last decade as population growth has accelerated. With a threat to [imported supplies](#) of staple items like sugar, the trend will spike. The closure of the border between Saudi Arabia and Qatar [complicates delivery of food imports](#), though Qatar's reliance on re-exports of food from Saudi Arabia is limited in scope (about [10 percent](#) of Qatari food imports, and largely dairy items). Qatar relies on many of the same [food trade partners](#) as other GCC states, which could be a source of leverage in any downward spiral of retaliatory measures. Trade partners may feel forced to choose sides, further isolating Qatar and discouraging bilateral agreements as well as private sector deal flows.

The delivery of gas exports from Qatar to the UAE and on to Oman via the Dolphin pipeline is another issue of concern, though more for the recipients than exporters. The UAE is [dependent](#) on the imported gas for its production of electricity. While the contract remains in effect, there is an underlying vulnerability to delivery of gas via the Dolphin pipeline from its origination point in Qatari waters.

More immediate, there is concern that gas exports from Qatar, and affiliated delivery of gasoil (diesel) products and refueling of liquefied natural gas tankers [might be affected](#), moving product from the Gulf to Asia. As tankers move through the Gulf and around the tip of Oman stopping routinely at multiple ports, the UAE's Port of Fujairah Harbor Master [announced](#) that any vessels flying flags of Qatar or vessels destined to or arriving from Qatari ports are not allowed to call at the Port of Fujairah and Fujairah Offshore Anchorage, regardless of their nature of call. Maersk, the world's biggest container shipping line, [announced](#) it would no longer be able to transport goods in or out of Qatar after Arab countries imposed restrictions on trade with the Gulf state.



Source: [Dolphin Energy](#)

In financial intermediation, Qatar saw an impact in its [stock market](#) on Monday, with bank, telecom, and utility providers all sliding down about 10 percent in trading. According to [Reuters](#), Qatar National Bank has recently opened a retail office in Riyadh and planned to apply to operate as an investment bank in Saudi Arabia. It is not clear how Qatari businesses, especially those with ties to the state or outright state ownership will be treated by Saudi, Emirati, and Bahraini authorities. The UAE central bank plans to distribute “[unwinding](#)” instructions to banks and businesses with Qatari ties, according to Reuters. For Qatari banks, this could create some liquidity issues and problems with interbank funding in other Gulf states. According to a June 6 research report by Standard Chartered, Qatari banks’ foreign liabilities have grown to 35 percent of their total liabilities in 2017, up from 23 percent at the end of 2014. These liabilities are made up of interbank borrowing and nonresident deposits.

[Air transport links](#) are the most immediately affected, though it is early to quantify the losses of Qatar Airways and the increased costs of its fuel in [new routes](#) necessary to avoid flying over Qatar’s neighbors. The compounded effects of reduced business travel between Gulf capitals and financial hubs of Doha, Abu Dhabi, and Dubai will affect hotel and retail business in Qatar, and disrupt staffing operations of professional service firms.

The urgency of a diplomatic resolution to the standoff between Qatar and its GCC partners Saudi

Arabia, Bahrain, and the United Arab Emirates is evident in these areas of vulnerability. That said, efforts to forge economic ties and people-to-people ties within the Gulf states will be curtailed, even if a solution to the current impasse is quickly found.

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