The isolation of Qatar is but one example of how the politics of the Gulf Arab states are getting in the way of economic diversification and transformation.

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The isolation of Qatar is but one example of how the politics of the Gulf Arab states are getting in the way of economic diversification and transformation. While there are professed visions of change away from state-led growth, in which new private sector dynamism and the expansion of Gulf equity markets would employ citizens and wean states from oil and gas revenue, the realities of politics on the ground in the last two weeks demonstrate there are more powerful forces at play.

The intransigence of the conflict, with both sides digging in, suggests that economic growth and the liberalization of these political economies are secondary priorities for all parties involved. The persistent penalizing of individual expression and mobility within the Gulf Cooperation Council states erodes social trust and the informal institutions of a free economy. The consequences will be a weakened, if not moot, GCC and a retrenchment of state dominance in both the economies and societies of the Gulf Arab states. The irony is that security states rarely prosper.

The embargo of Doha has demonstrated that the goal of economic mobility for both Gulf citizens and investment is not shared among, or at least not a top priority for, GCC members. As Qatari investors sell off assets in the United Arab Emirates and Saudi Arabia this week to meet the imposed deadline to leave, the fire sales and divided families exemplify every foreign direct investor's worst nightmare. Foreign investment, in a small retail shop or multibillion dollar joint venture, depends on capital mobility and rule of law. When these two regimes are absent, economies suffer. Scholars of postsocialist transitions, democratization, and development economics have been consistent in their findings across regions: property rights(and social trust) are foundational to economic growth. The goals of privatization of state assets, stimulation of private sector growth, and a retreating presence of the state in the economy will depend on rule-based understandings of property rights, orderly bankruptcy, and some measure of accessibility for all firms into all sectors without privilege to state interests.

In Saudi Arabia, there has been news of the impending demise of construction giant Saudi Oger.

Foreign workers are left without pay and many Saudis are displaced from jobs as the firm dissolves or is overtaken by new firms, some perhaps with ties to the state or ruling family. How Saudi Oger unwinds its business in Saudi Arabia may be a bellwether of the dangers of private sector operation at a moment when the government seeks to award as much as $250 billion in construction contracts, mainly in the power sector. Private sector firms will be wary, particularly when their business edges too closely or too appetizingly to the state.

Likewise, privatization efforts in hospitals and airports will be the first signals of how the state intends to treat new investors, local or foreign. Airports have been the first sites of experimentation by Saudi Arabia in its privatization push, though most of the arrangements are not outright property ownership but concessions to build or operate. Under new contracts signed on June 8, airports in Saudi Arabia will be operated by companies from Singapore, Turkey, and Germany.

For large firms with operations across the GCC states, from shipping conglomeratesto cooling firms to banks and professional services, the gray area between direct government instructions on mutual operations in Qatar and other GCC states and extreme caution in business operations will create friction, and impede regional expansion. Declining access to the Qatari market itself is not a huge loss, but the precedent of legal restrictions on trade and services adds a layer of risk to any transaction, joint venture, or attempt to develop more complex financial products across Gulf equity markets, like exchange-traded funds.

In the UAE, the ferocity of Qatar's isolation has surprised many expatriate business people. It goes against the long-held ethos of Dubai's business community in which politics and nationality are secondary to closing a deal. In the provision of foreign aid, bilateral agreements on agriculture, and military cooperation, there may be an expansion of taking sides, which not only impedes GCC cooperation but regional cooperation in the Horn of Africa and other, wider spheres of influence.

In Kuwait, and more pronounced in Oman, there is the flip side of Gulf isolationism: opportunistic and beggar-thy-neighbor economic activity. Oman Air has increased the capacity and frequency of its daily flights between Muscat and Doha, while its airport in Sohar will expand to include international flights. Kuwait's mediating rolemay be time well spent or folly. What is clear is that Kuwait has an interest in the stability of the GCC, as it preserved the fiction of a union of equals. With its weakening, smaller GCC members Kuwait, Oman, and Bahrain lose vestiges of independence, and more importantly, suffer from a chilling effect on economic expansion and economic opportunity for their citizens.

The powerful forces driving economic policy in the Gulf Arab states right now may not have diversification and growth as their priorities. The losses will be less tangible to measure in what could have been in the growth of regional competitors across industries in health care, power, logistics, e-commerce, and financial services, among others. Moreover, without support from Washington for their punitive policies toward Qatar, the UAE and Saudi Arabia risk isolating themselves and tarnishing their own brands as sites of economic opportunity.

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Dr Karen E Young is a former senior resident scholar at the AGSIW. She is a resident scholar at the American Enterprise Institute in Washington and a senior advisor at Castlereagh Associates.
