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There are simultaneous efforts by Qatar and Saudi Arabia to attract investors for new bond issues this week. The "bond-off," or race to sale, is yet a new example of the use of economic means to achieve political ends. The problem is that the side effects of competitive bond issues, just like escalating tariffs, can have unintended consequences on friends and allies. The hypercompetitive use of geoeconomic strategies can be counterproductive to growth. Two examples in trade and finance illustrate this point.

First, the bond-off: Qatar solicited proposals for plans to sell an international bond in January, its first since a $9 billion issue in 2016. It started a roadshow in March with investors in Asia, and this week Qatari officials and bankers have met with investorsin the United States and United Kingdom. In a carefully planned reintroduction to investors since the imposition of economic sanctions by the United Arab Emirates, Saudi Arabia, Bahrain, and Egypt, the Qataris may have been one-upped by a quick decision by Saudi Arabia to also try and issue an international bond this week.

No one is surprised that Saudi Arabia would also want to issue debt. The Saudi economy depends on debt financing for the government's massive 2018 spending plan, with stimulus packages to the private sector and large outlays in cash subsidies through its new Citizen's Account program. Saudi Arabia has demonstrated that it can access debt markets more quickly, or without so much justification to the market in months of investor meetings, and it is willing to pay a premium to its investors. According to analysis on Bloomberg, Saudi Arabia may have sweetened its offer to investors to leave little room for allocations to the Qatari bond, and also to make sure that the Qatari bond will have to offer an equally high, if not higher, premium to be attractive. By the end of the day on April 10, Saudi Arabia had issued $11 billion of bonds in three tranches at seven, 12-, and 31-year maturations.

Essentially, Saudi Arabia is driving up the cost of Gulf borrowing. And this is probably not very welcome by neighbors Oman and Bahrain, as both depend on bond- and loan-financed debt to meet their fiscal budget needs. Investors will price the region as a whole, and the competitive rush to market could become difficult if investors, particularly those from index funds, decide they do not wish to be too heavily weighted in one region with similar risk outlooks.

Ultimately, Saudi Arabia and Qatar are marketing to the same audience, and this may actually be good for bond investors in the long term. For investors looking at the Middle East and North Africa, particularly the Gulf, multiple and competitive issuance will require them to look more closely at the differences between Gulf states and their financing needs. Saudi Arabia and Qatar are very different kinds of economies, both resource dependent, but vastly different in terms of government liabilities in spending commitments to their populations, and to their external obligations in terms of foreign policy reach, e.g. Saudi military expenditure commitments in Yemen. The short-term strategy that the Saudis seem to be using is to edge up the premium for Qatar, but this is also not in Saudi Arabia's long-term interest, as the kingdom has expressed intentions to issue as much as $30 billion in debt this year alone. The side effects to neighboring Bahrain could be even more severe, given that it canceled a recent effort to sell an international bond in March, issuing only a $1 billion sukuk.

Debt markets are not the only arenas of geopolitical and economic score settling.

As a second example, the threat of a trade war between the major global economies of the United States and China has left the Gulf states in an awkward middle position. The administration of President Donald J. Trump imposed tariffs of 25 percent on steel and 10 percent on aluminum, while exempting some allies, like Canada, Mexico, and later, in a bidding war of best allies, the European Union, South Korea, Australia, and Argentina. The Gulf states were excluded. The exemptions have made the policy objective of boosting U.S. production moot, as Canada and Mexico account for roughly 26 percent of U.S. steel imports. Aluminum is the more relevant product to Middle East exporters, though Canada also is important in this market, accounting for 54 percent of U.S. aluminum imports in 2016, according to HSBC and the Census Bureau.

Top Sources for U.S. Aluminum Imports in 2016

	Import volume, thousands of metric tons	*percent of total*
Total	**4,260**	**100.0**
Canada	2,307	54.2
Russia	722	17.0
UAE	556	13.0
Argentina	174	4.1
Qatar	116	2.7
Bahrain	107	2.5
Venezuela	67	1.6
Saudi Arabia	53	1.2
Brazil	29	0.7
India	26	0.5

Source: Census Bureau

The UAE is the third top source of U.S. aluminum imports, at 13 percent, behind Canada and Russia. Qatar, Bahrain, and Saudi Arabia are also among the top eight exporters of aluminum to the United States. Gulf states are prime exporters of aluminum because they are able to provide cheap energy, often through state-owned entities, to fuel production. Emirates Global Aluminium, partially owned by the UAE sovereign wealth fund Mubadala, has plans for an initial public offering this year. The success of major industrial firms like Emirates Global Aluminum is a priority for the UAE's diversification aims, and its efforts to privatize major state-owned firms. A sharp dip in market share, based on a punitive measure by a close ally, is a difficult penalty to pay as a mere side effect of a U.S.-China trade war.

If the United States has chosen to ignore the impact of its policies on a key regional ally, or even if the UAE intentionally has been targeted by Trump's tariffs, as the relief offered to so many *other* allies might suggest, then there is a greater danger in the tactical and transactional diplomacy of the U.S. administration. The side effects of beggar-thy-neighbor sales tactics and politically-motivated tariffs can be counterproductive to growth, and also stress allies unnecessarily.

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