The new Trump administration will likely offer a more transactional view of US

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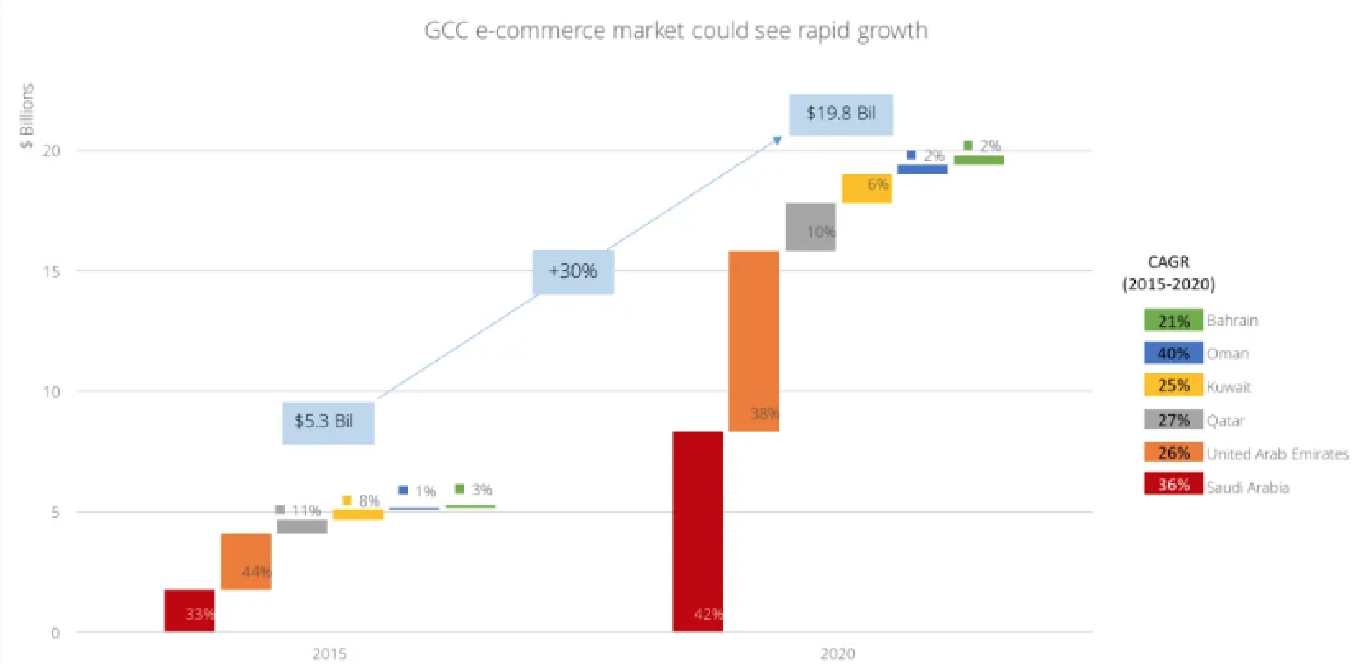
The new Trump administration will likely offer a more transactional view of U.S. foreign policy toward the Middle East, and specifically toward the Gulf states. In perhaps a warning of shifts to come, there was a clear message from U.S. Secretary of Defense Ashton Carter at the Manama Dialogue in Bahrain on December 10. Carter bluntly told an audience of Gulf policymakers, analysts, and military staff that the United States would expect the Gulf Arab states to do more in maintaining regional peace and security. In short, Gulf states should prepare to mount their own interventions in the Middle East, i.e., to negotiate political settlements of conflicts and provide the economic support necessary for the rebuilding of Syria and Yemen and the stabilization of Egypt.

Under President Barack Obama, the U.S. regional approach has focused on military sales and intelligence sharing, while Gulf leaders struggle to articulate a cohesive regional political strategy. The lack of a security and political union in the Gulf Cooperation Council reinforces the needs and practices of bilateral ties among the Gulf states, particularly in their global trade and investment partners. Deal making with both political and economic aims is a long-standing Gulf tradition of merchant culture. The bilateral ties, or pairing off, underway suggests divergent views inside the Gulf of future sources of prosperity and stability.

Gulf Arab governments are facing intense demands for economic performance. Their state-led economic development models have been sustained by a very outward-focused investment strategy. Revenue from the export of natural resources has funded state investments abroad, which in turn has multiplied wealth. In fact, the introduction and proliferation of Gulf sovereign wealth funds in equity markets in New York, London, and Hong Kong, along with global real estate and franchise holdings, have catapulted the Gulf Cooperation Council states from the regional sideline to increasing roles in Middle East security and international capital markets. This wealth now brings great responsibility, in regional foreign policy and the expectation that governments can stimulate economic growth for individual citizens, not just the state or ruling families.

Two related trends are emerging: Substantial new partner investments are both regional in scope and limited to key sectors. These key sectors include technology, infrastructure, and energy.

For the United Arab Emirates, the key bilateral relationship in both security and investment is Saudi Arabia. The UAE is politically invested in the Saudi economic reform agenda, while Saudi Arabia hopes to capture some of the commercial effervescence of Dubai. E-commerce is one sector that offers promising growth. Because Internet and smartphone use is so prevalent in the GCC, with more than two-thirds of the population using the Internet, and exceeding 90 percent in the UAE and Qatar, the next step is logically increased electronic commerce. The obstacles have been local preferences for cash transactions, service delivery, and supply chain issues, as well as perhaps a threat to the shopping mall real estate models that currently dominate Gulf public spaces and consumer patterns. According to a report by AT Kearney, e-commerce is currently only 0.4 percent of the region's gross domestic product, with a market size of about $5.3 billion, but has the capacity to increase fourfold by 2020.



Note: market size excludes travel and tourism, event tickets, subscriptions such as Netflix, business to business, wholesale, and industrial transactions.
Source: "Getting in on the GCC E-Commerce Game," A.T. Kearney analysis

The announcement in November of the launch of Noon, an e-commerce company founded by Mohamed Alabbar, chairman of the UAE (and Dubai Inc.) real estate giant Emaar, signals that Gulf governments intend to maintain a controlling stake in the diversification of their economies. Emaar is a publicly traded company on the Dubai exchange, yet the government of Dubai, through its investment arm – the Investment Corporation of Dubai – retains a significant stake (nearly 30 percent) in the company. Alabbar's business interests have often overlapped with both the emirate of Dubai's and the UAE's federal political investments, including his role in real estate projects in Egypt, which the UAE federal government has supported. Noon is privately owned, but only in the Gulf sense, in that it was founded by private investors with strong or even direct links to state resources. The investor group includes a $500 million stake from the Saudi Public Investment Fund.

Likewise, Bahrain-based Investcorp is eyeing investments in Saudi Arabia, in support of the kingdom's economic reform agenda. The fund's participation in the Saudi market is opportunistic, but also a signal of investor confidence in the Saudi private sector. Investcorp is a privately held firm, but there are additionally bilateral, state-to-state investments between the UAE and Bahrain, which demonstrate more directly commitments to mutual economic development. The Abu Dhabi Fund for Development announced in early 2016 it would pay the majority of the costs, nearly $1 billion, of the expansion of the Bahraini airport, as part of a larger infrastructure investment fund supporting Bahrain announced by Saudi Arabia, Kuwait, and the UAE in 2011.

When Gulf states secure investment partners outside of the region, new calculations seem to be sector focused as well as politically expedient. Technology and energy are major targets. Saudi Arabia's Public Investment Fund has joined with SoftBank of Japan to build a $100 billion technology fund. Japan is a key partner for Saudi Arabia in its Vision 2030 initiative, as an investor in infrastructure, a source of finance, and a top purchaser of oil exports. The new fund will likely target some investments inside the Gulf, but its reach will be global.

The Qatari sovereign wealth fund, the Qatar Investment Authority, and the commodities trader Glencore have bought a 19.5 percent stake in the new partial privatization of Russian state gas giant Rosneft. The Qataris are less likely to collaborate with their GCC neighbors on domestic economic development, or regional security partnerships, but they are likely to partner with a competitor in global gas markets. The Rosneft investment is a way for the Qataris to maintain a bargaining position with divergent Russian foreign policy in the Middle East, while also hedging their profit margins with a major stake in a competitor. The Qataris have also been quick to indicate a willingness to partner with an incoming Trump administration and its infrastructure investment agenda.

For Oman, like Qatar, the strategic investment partnerships tend to look outside of the GCC. Oman's financial engagement with Iran, in mining, manufacturing, and transport infrastructure point to a different calculation of the sources of future economic growth.

President-elect Donald Trump has no exclusive claim on transactional foreign policy. However, the emerging global trend in electoral victories of populists and nationalists in the United States and elsewhere will undermine multilateral efforts at economic stabilization and post-conflict reconstruction in the Middle East. Gulf leaders have come to a realization that with the gains of populist movements in the West, they are unlikely to see fuller engagement in the region's conflicts by external powers. Hence, the Gulf states will prioritize an increased level of regional economic cooperation along bilateral political and security lines. 2017 could herald a new era of deal making in foreign and economic policy, weakening long-term partnerships and multilateral security commitments of the past.

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