



EXPLORING COVID-19 IMPACT ON THE GULF

Wikistrat's COVID-19 Webinar Series
April 7, 2020





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BACKGROUND

The outbreak of COVID-19 has impacted many countries and regions across the world, including the Arab Gulf States. Adam Hoffman from Wikistrat interviewed Dr. Kristian Coates Ulrichsen, an expert on the Gulf States and fellow for the Middle East at the Baker Institute for Public Policy, to discuss the impact of the epidemic on the Gulf.



Dr. Kristian Coates Ulrichsen

Dr. Kristian Coates Ulrichsen is a fellow for the Middle East at the Baker Institute for Public Policy at Rice University in Houston, and an Associate Fellow at the Middle East and North Africa Programme at Chatham House. His research examines the changing position of Persian Gulf States in the global order, as well as the emergence of longer-term, nonmilitary challenges to regional security.

KEY TAKEAWAYS

The crisis highlights the 'Asianization' of Gulf States: Much of Gulf oil and gas and economic activity is bound up with a strong Chinese economy that has really assisted Gulf economies. Yet, the immediate scaling back of demand for oil had a knock-on effect on Gulf economies. Policymakers in the Gulf might be hoping for a Chinese rebound to defray economic disruption. This crisis reinforced how closely intertwined Gulf economies and China have become over the last fifteen years, a process defined by a shift from West to East, both politically and in terms of trade patterns.

Fading US presence may change the strategic regional calculus: Iranian displays of power last year, embodied in the attacks on shipping and energy, and the lack of a US response thereof, really focused the attention of Riyadh and Abu Dhabi on the necessity to start dealing with Iran on their own terms, bereft of the American presence, which gave them de-facto support for all their regional endeavors. There could be an opportunity for Gulf-Iran rapprochement and continuing improvement in relationships, which might result in foregoing the zero-sum confrontational nature of current relations.

An increasingly politicized Aramco is a risky investment: While, in the past, Saudi oil policy was an enclave of technocratic excellence, now, being so concentrated in the political inner circle of Mohammed bin Salman and his brother Abdulaziz, we witness a much more politicized management. That might make investors less confident in the future about investing. The Saudis have been, again, using oil as a weapon, and the skepticism has always been that Aramco is not your normal oil company but an indispensable arm of a regime – a political entity.

The crisis has accelerated underlying economic structural problems in the Gulf: The shift from a heavy and energy-intensive industry is what sits at the heart of the diversification and development debate, which oil Gulf States have spent years trying to address. What this crisis may have accelerated is the need to build on what the Gulf has, which is a young, highly educated, technologically literate population, and moving into some new diversification that can at least take advantage of digital economies.

A Biden presidency would not dramatically impact US-Gulf relations: The notion of a Democratic White House exerting more political pressure on Yemen, and on the Saudis for Khashoggi, is a worrying scenario in GCC countries. However, the Gulf leaderships now know the alternative to Trump will be a mainstream Democrat who is unlikely to enact a radical shift in the US-Gulf relationship.

LIVE WEBINAR: FULL TRANSCRIPT

Wikistrat: How did the coronavirus pandemic impact the Gulf States so far?

Ulrichsen: We can break down the impact of the coronavirus pandemic on the Gulf States into first, second, and third order impacts. The first order impact has been the immediate disruption to global economic activity magnified, in the case of the Gulf States, by the precipitous fall in oil prices as a consequence of the breakdown of the OPEC+ agreement and its aftermath. This has hit the Gulf States hard because the suspension of much economic activity has impacted their role as regional hubs, and the potential for the coronavirus to spread among migrant workers in labor camps means that further economic dislocation is likely and could impact the private sector in Gulf economies.

The second order impacts will be the hit that Gulf States take to their sovereign wealth funds, their investments, and those economic sectors – such as travel, tourism, hospitality, meetings and events – that have formed the cornerstone of much of the non-oil economic activities and plans to develop towards post-oil economies. The third order impact is the way the broader consequences of the pandemic may shape issues such as the ongoing rift within the Gulf Cooperation Council between Qatar and Saudi Arabia, the UAE, and Bahrain, especially as coordination rather than confrontation is now required, and how the outcome of the US presidential election may be impacted, given the close

embrace of the Trump administration by the Saudis and Emiratis in particular.

Wikistrat: We have seen some reports that the coronavirus epidemic may have an effect on religious practice in the Gulf States. What do you think will happen with Hajj? Do you think that the Saudis will try to cancel it or try to limit it in some way, in order to mitigate the spread of the virus in upcoming months?

Ulrichsen: Right now, if we do not see a short and sharp turnaround, it is very difficult to imagine how any mass gathering anywhere in the world can take place at any point, any time in the next six months, or at least until maybe the end of the year, when some sort of vaccine may potentially become available, or we know more about the limitations of the spread globally. I think, as we have already seen now reports over the past few days, that some of the Champions League Football games in Italy may have catalyzed the spread of the virus, not just within the country, but across borders. The idea of hundreds of thousands, if not more, people from all over the world converging on one place where they are all packed together is precisely what is kind of a worst-case scenario, nightmare scenario, right now and we are already seeing now, in the US and Louisiana, how New Orleans, following Mardi Gras celebrations in February, is now seeing one of the highest rates of growth in the US. For three or four days, you had another similar huge gathering of people in close proximity, allowing almost

perfect conditions for the spread of the virus.

It would be very difficult for Hajj or any of the mass gatherings to take place anytime soon. We will see the two sides of Saudi and other Gulf States and sort of political and religious sides really coming together in a sense. It will be very important to track the religious commentary by the senior clerics, by the religious authorities, to see how they convey a message from the government to religious communities who might otherwise be potentially put out by the cancellation of these gatherings, which are extremely important to them. How the religious authorities convey that message will, of course, be very important. In Saudi Arabia, the message already is, "Do not come to the mosque". We are already seeing the mobilization of religious authorities to convey those political and public health messages. We will see more of that. It is very hard to conceive how something with a global nature like the Hajj can happen anytime soon.

Wikistrat: Looking, specifically now, at Saudi Arabia and the UAE, what is the strategy of the governments in both of these countries in response to the coronavirus crisis? How are they trying to limit its impact?

Ulrichsen: Of course, they are trying to limit impact, and this is true for other regional governments as well. 2020 had really been seen as the moment for Saudi Arabia and for the UAE. Saudi Arabia should be hosting the G20 this year, and the UAE should be hosting Expo 2020, as well. This had really been earmarked as sort of the year of Saudi and Abu Dhabi and Dubai, especially for the Saudis. It was an opportunity for Mohammed bin Salman, in particular, to sort of re-emerge on the international stage, having sort of served a sort of 18-month period in a sin bin, so to speak, following the death of Jamal Khashoggi.

This had really been seen as that sort of breakout year in terms of both their global profiles, and so having to deal with this crisis now is not what they bargained for, particularly the Saudis. One had the sense that the G20 was more about state branding at the international level, about showing that Saudi was back on the world map after Khashoggi, but now, of course, the Saudis have to step up and try to coordinate and be seen coordinating the global response, which, arguably, is the reason King Salman hosted or at least convened the virtual meeting today. It is an opportunity, I suppose, for them to try and step up. It does mean that the G20 is a very different kettle of fish than it appeared to be even two or three months ago. It is less of a prestigious series of events to have a business 2020, a civil society 2020. It has now got to try to convene a global response similar to that which Gordon Brown managed to put together in 2009 in the United Kingdom, in response to the financial crisis.

Regarding the UAE, it is again about trying to limit the spread, trying to show their version of response, which consists in trying to deep clean, to disinfect. It can work, but that is a one-off. What if it comes back? Currently, there are so many unpredictable elements to it that nobody can be confident of anything anymore. However, the Saudis, here, face an opportunity now for them to step up. It would be interesting to see how that takes place in practice and, clearly, governments that maybe would not have felt comfortable with dealing with, say, Mohammed bin Salman will now have no option but to do it, just because they have... they are hosting the G20. In any case, it was interesting to see that King Salman was the one who actually convened the meeting today, even though it was Mohammad bin Salman who, in the last couple of years, has actually been representing the kingdom abroad, although

as head of state of the host nation. It was probably inevitable that the king would be the one convening the meeting today.

Wikistrat: Taking into consideration this meeting and the Saudi leadership with regards to this issue, how will this impact regional cooperation between Saudi Arabia and the five GCC States? Would this lead to more cooperation, more collaboration in an attempt to curb the spread of the virus, or will each go at it on their own?

Ulrichsen: We got off to a bad start when the Minister of Health in Qatar was not able to travel to Riyadh in February. Although, that may have been before people realized the full scale of the challenge and thus the need to, at least, come together. However, we have also seen, in some media outlets and social media, some silly comments blaming Qatar for the crisis and trying to associate Qatar with the coronavirus, something which does not inspire too much confidence. It is possible they are just continuing this sort of petty give and take which has been experienced on every level of the Gulf crisis since 2017. Among the six GCC States, as well as in the European Union, we have seen nations taking national responses, often at the expense of those regional bonds that they spent years building up, and this applies to every GCC state.

This risks transforming the GCC in an institution even more marginal than it already was as a result of the Qatar issue, since 2017. While it will still, of course, continue to be a functioning institution, it is very difficult to see how the GCC will be inserting itself into the policymaking debate. There is a Saudi response, a Bahraini response, a Qatari, Kuwaiti, Emirati, and Omani response. Now, with the Saudis obviously involved with the G20, that is going to be their benchmark level of international coordination. The Saudi decision to react to the breakdown

of the OPEC+ agreement on March 6th, and to respond by effectively declaring an oil price war, probably was not taken with any coordination with any of the Gulf countries, especially the UAE, a country which is really going to be hit by the collapse of oil revenues. National-level decision making, once again, comes really strongly to the surface, leaving multilateral approaches and the GCC and kind of region-wide initiatives just firmly on the back burner.

Wikistrat: How much do you think this crisis will impact Saudis' perceptions of Crown Prince Mohammed bin Salman?

Ulrichsen: It will become very difficult for the crown prince to deliver Vision 2030 or what was left of Vision 2030, considering there was the impression that Vision 2030 was gradually being scaled back, if not officially at least in practice, to a series of large-scale projects. You had less of the language of transformation of the wider economy and more of a series of high-profile projects, which still required at least robust levels of revenues and investment and, at least, confidence as well to work. That is going to be more difficult, especially if oil prices remain low and if investor confidence in institutions like Aramco are shaken by this continued use of oil as a political tool or a geopolitical tool. In that respect, it arguably puts the crown prince in a more challenging position, at least in the longer term, just because it makes Vision 2030 more difficult to conceive as a success.

The crown prince's challenge is that he has over-promised, at least to the Saudi people. As such, if you over-promise, you risk under-delivering. In private, often people will say, "Well, Vision 2030 is a roadmap, and if we even get 30%, 40%, 50% of the way down the road, we will still be a lot stronger and better off than when we began". That may certainly be true, but that is not how it was sold: that

will be his challenge. In the last oil price collapse in 2014, 2015, when Mohammed bin Salman first rose to prominence, he took some very drastic decisions. He cut the state spending by quite a lot, but he had to also sweeten that with handouts to the population and to citizens' allowance. Some initial cuts to benefits and wages were then reversed, and so it really illustrates the very delicate game he has to play to balance the need for economic prosperity, while also avoiding going too far too fast. That balance will be harder for him to obtain, at least for the foreseeable future.

Wikistrat: As far as regional policies of UAE and Saudi Arabia are concerned, how do you see that this crisis will impact their approaches towards Yemen? Will it push towards more demilitarization and more of a pullback?

Ulrichsen: For different reasons, both the Saudis and the Emiratis would be quite happy to disengage. It is, however, going to be more difficult in practice to do so. At least for the UAE, there is a sense that they have already accomplished what they set out to achieve. They have secured de-facto influence across the ports of Southern Yemen. They have that sort of wider geopolitical interest in the region and, in their view, any continuing military engagement, at least engaging directly, is highly unlikely to bring significant further gains. They have been ready for quite some time to continue to work through proxy groups and local allies, but have been kept from completely disengaging, due to the alliance between the Saudis and Emiratis, or at least the alignment between Mohammed bin Salman and Mohammed bin Zayed. They do not want to risk rupturing that by unilaterally disengaging from Yemen, one without the other.

The challenge for the Saudis remains how

to effectively spin a disengagement as a success. Now, the situation still has not reached that point, especially if Houthi advances continue in certain areas, and the Saudis continue to struggle to really show any political results from this five-year military campaign. I think they would like to get out if they could, but it is... kind of how to portray that withdrawal or disengagement as anything other than a sort of defeat is what I am not sure about. The coronavirus could become, potentially, that justification for doing so. Disengagement could be construed on the notion that there is now a more important challenge. It may happen and it may not.

I do not have a specific insight on that, but of course, now this black swan event could shift the terms of debate. The challenge would then, naturally, be on the humanitarian response and post-conflict reconstruction and recovery. And we have already seen pressure from the US, especially on the Saudis and Emiratis to contribute more with regards to that. If that takes place at the same time as Gulf economies are being hit badly by the economic impact of COVID-19 combined with lower government revenues from oil prices, again, that could also be something that becomes harder to balance with a sustained humanitarian mission in Yemen. The cost of continuing this war could also become more difficult to justify if bold spending decisions happen to be taken across the Saudi economy, most certainly across the Emirati economy.

Wikistrat: Who do you think might benefit from the crisis from an investment perspective? Winners and losers in the region?

Ulrichsen: State-owned enterprises such as Emirates, Etihad, Qatar Airways, and lots of logistics companies, right now, that are really taking

a hit and will require some degree of government support, and they are already receiving that. This will make it more difficult perhaps, especially for the airlines, to continue to insist that they are really separate entities from the government. There could be opportunities, especially if markets eventually begin to rebound or investors from the Gulf, if they can survive relatively unscathed, they can begin to pick up investments that may perhaps be cheaper than they used to be. Time will tell. The challenge really lies in how prolonged and deep this crisis will be.

The more important issue to think about right now is what will be the new normal. We are not going to go back to a pure status quo ante. We are not going to go back to 2019, and what will that new normal look like? What will the landscape look like? There is talk about widespread damage in the airline industry. These are real issues that may begin to create problems for GCC States as well. Although, at least there are lots of very rich private investors in the Gulf, and they also may now be pressured to invest domestically, and sovereign wealth funds may also be pressured to once again assist in domestic stock markets to prevent a local collapse as they were in 2008, 2009. So, we could see more of that, at least in the immediate future, as governments across the region and across the world, again, just scramble to try and at least stop the bleeding, stop that sort of flow, outflow of sort of confidence, as well. So, I think that might what we see in a short time.

This crisis could also have a wider impact on relations with Iran. The UAE had a more politically antagonistic relationship with Iran, but it has been supportive since the start of the crisis. That is something to follow. It is a posture that builds upon the de-escalation of tension at the end of 2019 when the UAE responded to the pattern of attacks in and

around the Gulf on energy and maritime targets. The UAE really shed a lot of its more confrontational language. Now we are seeing, perhaps, further warming at least of nonpolitical relationships through the help they are providing. This could be something to watch with Iran.

Wikistrat:

Assuming that this crisis will continue for the foreseeable future, do you suppose this kind of humanitarian aid by the UAE would also translate into improved public relations at the geopolitical level as well?

Ulrichsen:

That might also depend on what sort of Iranian government survives the crisis, given that the Iranian government has had quite a bad start to 2020, obviously with the fallout from the killing of Qasem Soleimani, the widespread anger following the shooting down of the Ukraine International Airlines flight, the government's initial attempts to cover that up, and now, of course, the government's seeming inability to get to grips with the scale of the pandemic in Iran. Political developments in Iran over the next year are going to be interesting to follow. There could be an opportunity at least for a rapprochement, continuing improvement in relationships, which might result in foregoing that zero-sum confrontational aspect that we saw the last four or five years. Maybe even with the Saudis, just given that the lack of the US response following the 2019 attacks on Aramco made them realize they were on their own more than they thought. They have to live with Iran. They had to make the most of living next door to Iran, and they cannot just rely upon the US to sort of offer to have their back.

This could also be why we are now seeing, especially the UAE reaching out to Iran, despite the Trump administration being adamant that this is not something they support. The lesson from last year, however,

is that the US will not step in and assist militarily, were there to be an attack. The UAE is now, therefore, making decisions based on UAE interests, not based on the conviction the US will come to their support come what may.

Wikistrat: How will the COVID-19 crisis, which is very much identified with China, change the perception and actual economic and political relations between GCC States and China?

Ulrichsen: The challenge so far has been that much of Gulf oil and gas and economic activity is bound up with the Chinese economy, and a strong Chinese economy has really assisted Gulf economies. When the Chinese economy effectively ground to a halt in January and February this year, there was an immediate scaling back of demand for oil which had a knock-on effect on Gulf economies. Now, the offset of that may be that China begins to rebound quicker than the world economy, especially if China is sort of two months ahead of the curve in terms of shutting down its economic activity due to the pandemic, which might mean the country might be able to get back on track earlier than others. If you are a policymaker in the Gulf, you might be hoping that actually the Chinese begin to rebound to at least defray some of the economic disruption and dislocation due to all that is going on.

Once again, this crisis reinforced how closely intertwined Gulf economies have become over the past, probably, 10 to 15 years, in a process that could be defined as the 'Asianization' of Gulf economies; a shift from West to East, which has been political but has also very much regarded the patterns of trade. If strong measures were to be enacted on behalf of China to engage in a global level response, the situation of chaos projected by Washington, emerging countries and Gulf States might benefit from this economically.

Wikistrat: Do you think that this crisis will change Gulf States', specifically Saudi Arabia's, rhetoric toward Iran?

Ulrichsen: It already had begun to change before the outbreak in December, January this year. The display of Iranian power last year, especially with attacks on shipping and energy, and the lack of covert US backing to the Gulf States, really focused minds in Riyadh and Abu Dhabi on the fact that they now have to deal with Iran on their own terms, without the shadow of the US behind them any longer, which gave them de-facto support for whatever they were hoping to do as they did, for example, when they went into Yemen in 2015.

There has been a shift in rhetoric towards Iran, and it might continue, if there is a resolution to the situation in Yemen, especially with some sort of Saudi Houthi agreement. That could be a way to de-escalate even further. At least for the foreseeable future, the Saudis will be focused on their domestic response and also on some aspects of G20 coordination, whereas Iran clearly is focused on its own set of issues. Confrontation, at least to some extent, is replaced by practical coordination, if not by anything more than that, but at least a very different set of messaging that we saw up until the first half of 2019.

Wikistrat: How do you expect this will impact the Saudi transition to a less oil-dependent economy, and do you think that COVID-19 will hinder the efforts of the government in this area?

Ulrichsen: This may also show the Saudis even more strongly that we have to make that transition work. If, suddenly, demand for oil can fall by 18, 20 barrels and can eventually be replaced, it would certainly have focused the attention on the need to try and transition. The dilemma for Mohammed bin Salman is that he requires revenues in the short term to be high to try and make such transition

work. Especially when Vision 2030 was announced, it was very much portrayed as a strategy to use oil revenues as a catapult for that transition away from those revenues. It is now going to be a very difficult balancing act, not least because there are 22 million Saudi citizens who cannot simply just be cast off the social welfare safety net. Oil revenues have always underpinned a political order in the country, and arguably, that becomes even more important in times like this.

The Aramco IPO had to be scaled back. It was, at least initially, oversubscribed, but now of course, with the pockets having fallen, the value of Aramco shares has fallen. It is now below the price levels in December and having encouraged Saudi investors, both individuals and corporations to invest, almost as a national duty, in Aramco, Mohammed bin Salman actually now brings them all into the system, meaning they will now have a stake in Aramco shares. If they fall, it is not just the Saudi state that loses money, it is actually individual citizens, corporations. He could have been spreading the risk, but also, now, he is potentially spreading the discontent. The Saudis have been, again, using oil as a weapon. Now, even if they ever got the international components of the IPO off the ground, this attitude might make international investors feel that the company might be even less worthy of investment. The skepticism has always been that Aramco is not your normal oil company: it is an oil company that is an indispensable arm of a regime, a government – a political entity.

Aramco is going very strongly after market share, but again, it is hard to balance market share with vice: the Saudi government will have to find a way of ensuring prices are a little bit higher than market share would perhaps allow for. The impression is that, whilst in the past Saudi oil policy was an enclave of technocratic excellence, now, being so concentrated in one or two political

inner circle figures, Mohammed bin Salman and his brother Abdulaziz, we are witnessing a much more politicized management, and that might make investors less confident in the future about investing and trying to assist that transition from abroad, especially considering that this transition now seems much more uncertain.

Wikistrat:

We discussed the intertwined nature of China and GCC economies. Do you see that one potential fallout of this market would be due to an attempt of Gulf States' economies to create some kind of distance between themselves and China in favor of a more globalized economic market?

Ulrichsen:

What the Gulf States have to export is, clearly, the commodity that literally powers the world economy. That is their major export, that in the absence of meaningful and even in terms of null oil growth, a lot of it has been derivative. It has been petrochemicals. It has been kind of heavy industry and energy-intensive industry as well, and this is what sits at the heart of the diversification and development debate, which oil Gulf States have spent years trying to address but have not really yet found a way of doing so. What this crisis may have accelerated is the need to build on what the Gulf has, which is a young, highly educated, technologically literate population, and [the move] into some new diversification that can at least take advantage of digital economies, because that could be where you see a new advantage of the Gulf populations, especially Gulf nationals have.

But can you ever really replace the sort of negative industries in the past? Probably not. So, yeah, I think there will be continuing global reliance on the Gulf. We have gone too far down that road for something to be abandoned, but this crisis has probably opened people's eyes to just how quickly conditions can turn and, thus, the need of a much more diversified cushion to fall

back on. It is one thing to talk about Vision 2030 and to say how they would like this to happen in 10 years, but actually, they need it now. People really realize that, actually, you have got to figure out very quickly what other competitive advantage you can have, and how you can continue to play that role in the global economy, whilst minimizing your vulnerability to the volatility of global flows that you lack any control over.

Wikistrat: Final question, on US-Gulf relations. Do you think the way that the Trump administration is battling this crisis domestically has any kind of impact on how the Gulf States perceive the United States and their future relations with them in the next few months and years?

Ulrichsen: Of course there is a change in perceptions, because all of this is happening in an election year, and the chaotic response of the Trump administration immediately created the impulse for comparison to George W. Bush and his Katrina moment. They are talking about a 'Katrina moment' for Donald Trump, but Katrina happened in the first year of George W. Bush's second term and, back then, he did not have to face re-election. All Gulf governments should be certainly reassessing whether or not Trump is likely to be reelected and, if not, what happens next? For the Saudis and Emiratis, who rushed to embrace the Trump administration in 2016, early 2017, the notion of a Democrat

in the White House exerting more political pressure, especially on Yemen, on Saudis, on Khashoggi, is not something that they had maybe bargained for. On the other side of that equation, the fact that that Democrat would almost certainly be Joe Biden would be much more reassuring to Gulf States than your alternatives. The alternatives being Bernie Sanders or Elizabeth Warren, but Sanders especially. From an initially very crowded field with a number of leading contenders whose policies towards the Gulf would have been potentially much more hostile, the Gulf leaderships now know that the alternative to Trump will be a mainstream Democrat who would be unlikely to enact a radical shift in the US-Gulf relationship. That said, they are reassessing Trump's election prospects, but at least the sort of risk from the Gulf point of view of a sudden rupture in US-Gulf relations is probably lessened by the fact that the alternative to Trump would almost certainly now be Joe Biden.

Wikistrat: Kristian, thank you very much for your time and for your expert insights on these issues. Thank you, everyone, for joining us.



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