



Brief

The Gulf Diplomatic Rift

Identity Center

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Introduction

Early on Monday of June 5th Saudi Arabia, United Arab Emirates, Bahrain, Egypt, Yemen (Abd Al-Hadi Mansour Government), and Libya (Government of National Accord) along with Maldives have decided to cut diplomatic ties with Qatar and suspend land and sea travel to and from Qatar over what they claimed Qatar's support for terrorism, including ISIS, Al-Qaeda, and the Muslim Brotherhood and its ties with Iran. Qatar was also removed from the Arab coalition fighting the Houthis in Yemen. All of which comes after only 2 weeks from Donald Trump's visit to Saudi Arabia where he urged Arab and Muslim nations to fight extremism. Two members of the Gulf Cooperation Council, Kuwait and Oman, haven't joined the Saudi-led sanctions against Qatar, with Kuwait trying to mediate talks between Qatar and Saudi Arabia to ease the tension. Iran has also called for dialogue to prevent further escalation.

Political Developments

The exact reasons for the diplomatic break-offs is unclear, but contemporary news coverage primarily attributes it to two events in May 2017. First, U.S. President Donald Trump visited the region as part of the Riyadh Summit in late May 2017, during which he gave strong support for Saudi Arabia's efforts in fighting against the Islamic extremist groups from Iran and the Muslim Brotherhood, leading to an arms deal between the countries. Trump's support may have emboldened the other Sunni states to follow in line with Saudi Arabia to take a stance against Qatar. A second event resulted from alleged hacking of the Qatar state media in May 2017, making the Emir enquiring on U.S. resentment towards Iran and remarking on Hamas. Qatar reported that the statements were false and did not know their origin. On 3 June 2017, the Twitter account of Bahraini foreign minister

Khalid bin Ahmed Al Khalifa was hacked in a Qatari cyberattack.¹

In May 2017, the email address of the UAE ambassador to the U.S., Yousef Al-Otaiba, was allegedly hacked. The emails were seen as "embarrassing", because they allegedly showed links between UAE and a pro-Israeli group, Foundation for Defense of Democracies. The story was covered by Al-Jazeera and HuffPost Arabi, both of which are funded by Qatar. Arab countries saw the media coverage of the alleged email hack as a provocation by Qatar², and deepened the rift between the two sides³. Emirates officials denied the hacking and claimed that the e-mail doesn't belong to the ambassador.

Between 5 and 6 June 2017, Saudi Arabia, the UAE, Yemen, Egypt, Maldives, Libya (eastern government) and Bahrain all separately announced that they were

¹ <https://phys.org/news/2017-06-bahrain-minister-briefly-hacked-qatar.html>

²

<http://english.alarabiya.net/en/features/2017/06/04>

</ANALYSIS-UAE-envoy-s-hacked-emails-and-Qatar-s-escalating-Gulf-rift-.html>

³ <https://www.ft.com/content/3c6b7224-49d0-11e7-a3f4-c742b9791d43>

cutting diplomatic ties with Qatar⁴. All involved countries ordered their citizens out of Qatar. Three Gulf states (Saudi Arabia, UAE, Bahrain) gave Qatari visitors and residents two weeks to leave their countries. The foreign ministries of Bahrain and Egypt gave Qatari diplomats 48 hours to leave their countries. Qatar was expelled from the Saudi Arabian-led intervention in Yemen.

Saudi Arabia shut down the local office of Al Jazeera Media Network, and along with the UAE notified ports and shipping agents not to receive Qatari vessels or ships owned by Qatari companies or individuals. It has also closed its borders with Qatar, the only land borders that Qatar has, meanwhile Iran has sent food shipments to Qatar in a political move that suggests a start of rapprochement between the two countries⁵. Saudi Arabia's central bank advised banks not to trade with Qatari banks in Qatari riyals⁶.

The Foreign Ministry of Qatar criticized the decisions of the Gulf nations to sever ties with Qatar and in a statement said: "The measures are unjustified and are based on false and baseless claims. The aim is clear, and it is to impose guardianship on the state. This by itself is a violation of its (Qatar's) sovereignty as a state. The campaign of

incitement is based on lies that had reached the level of complete fabrications⁷.

International reactions

United States – U.S. Secretary of State, Rex Tillerson, urged all parties to, "Sit down together and address these differences." Tillerson went on to say, "I do not expect that this will have any significant impact, if any impact at all, on the unified – the unified – fight against terrorism in the region or globally."⁸

Pakistan – Pakistan said it had no plans of cutting diplomatic relations with Qatar, even though Pakistan is an ally of Saudi Arabia and Saudi Arabia expecting Pakistan to show solidarity.⁹

Iran – Foreign Minister Javad Zarif tweeted, "Neighbours are permanent; geography can't be changed. Coercion is never the solution. Dialogue is imperative, especially during blessed Ramadan." Hamid Aboutalebi, deputy chief of staff of Iran's President Hassan Rouhani, tweeted, "What is happening is the preliminary result of the sword dance."¹⁰

Turkey – Turkish Foreign Minister Mevlut Cavusoglu told reporters, "Countries may of

⁴<http://www.news.com.au/finance/work/leaders/why-saudi-arabia-and-six-other-countries-have-cut-ties-with-qatar/news-story/b758105a63a70df40b73211e0395d550>

⁵ <https://www.dawn.com/news/1337555/saudi-egypt-uae-bahrain-and-yemen-isolate-qatar-over-terrorism-as-rift-deepens>

⁶ <http://www.aljazeera.com/news/2017/06/qatar-justification-cutting-diplomatic-ties-170605073154112.html>

⁷ <http://www.aljazeera.com/news/2017/06/qatar-diplomatic-crisis-latest-updates-170605105550769.html>

⁸ <http://www.foxnews.com/politics/2017/06/05/tillerson-urges-calm-after-4-arab-nations-sever-diplomatic-ties-with-qatar.html>

⁹ <http://nation.com.pk/national/06-Jun-2017/pakistan-in-a-fix-over-qatar-crisis>

¹⁰ <http://www.cnbc.com/2017/06/04/saudi-arabia-bahrain-and-egypt-cut-diplomatic-ties-with-qatar.html>

course have some issues, but dialogue must continue under every circumstance for problems to be resolved peacefully. We are saddened by the current picture and will give any support for its normalization." Cavusoglu urged all parties to resolve their differences and offered to help normalize relations.¹¹

Russia – Kremlin spokesman Dmitry Peskov says Russia advocates a peaceful and stable Persian Gulf but cannot interfere in their domestic affairs. "Russia hopes that this situation will not in any way affect the general spirit and determination in the fight against terrorism," he said.¹²

India – With nearly 7 million Indians living around the Gulf, India has the largest expatriate community in Qatar, Saudi Arabia, and the UAE. External Affairs Minister Sushma Swaraj told reporters, "There is no challenge arising out of this for us. This is an internal matter of GCC (Gulf Coordination Council). Our only concern is about Indians there. We are trying to find out if any Indians are stuck there."¹³

Israel – Israeli Defense Minister Avigdor Lieberman said that the diplomatic rift between Qatar and fellow Arab countries opens up opportunities for cooperation in the fight against terrorism. "The Arab countries that cut off their diplomatic relations with Qatar did not do so because of

Israel or the Palestinian issue, but because of their fear of radical Islamic terrorism".¹⁴

Economy – Overview¹⁵

Qatar has prospered in the last several years with continued high real GDP growth, but low oil prices have dampened the outlook. Qatar was the only Gulf Cooperation Council member that avoided a budget deficit in 2015, but it had a \$12 billion deficit, 7.8% of GDP in 2016.

GDP is driven largely by the oil and gas sector; however, growth in manufacturing, construction, and financial services have lifted the non-oil sectors to just over half of Qatar's nominal GDP. Economic policy is focused on sustaining Qatar's non-associated natural gas reserves and increasing private and foreign investment in non-energy sectors, but oil and gas still account for roughly 92% of export earnings, and 56% of government revenues. Oil and gas have made Qatar the world's highest per-capita income country and the country with the lowest unemployment. Proved oil reserves in excess of 25 billion barrels should enable continued output at current levels for about 56 years. Qatar's proved reserves of natural gas exceed 25 trillion cubic meters, about 13% of the world total and third largest in the world.

¹¹ <http://www.reuters.com/article/us-gulf-qatar-turkey-idUSKBN18W19Z>

¹² <https://sputniknews.com/world/201706051054319483-russia-kremlin-qatar-diplomacy/>

¹³ <http://timesofindia.indiatimes.com/india/qatar-saudi-arabia-spat-internal-our-only-concern-is-for->

[indians-living-there-says-sushma-swaraj/articleshow/59003830.cms](http://www.haaretz.com/israel-news/1.793856)

¹⁴ <http://www.haaretz.com/israel-news/1.793856>

¹⁵ The World Factbook

<https://www.cia.gov/library/publications/the-world-factbook/geos/qa.html>

Qatar's successful 2022 World Cup bid is accelerating large-scale infrastructure projects such as its metro system, light rail

system, construction of a new port, roads, stadiums and related sporting infrastructure.

		2014	2015	2016
GDP (purchasing power parity)		\$314.4 billion	\$325.9 billion	\$334.5 billion
GDP - real growth rate		4%	3.7%	2.6%
GDP - per capita (PPP)		\$140,700	\$134,600	\$129,700
Unemployment rate		NA	0.4%	0.7%
Budget	Revenues	NA	NA	\$41.71 billion
	Expenditures	NA	NA	\$53.95 billion
Public debt % of GDP		NA	55.6%	41.6%
Inflation rate (consumer prices)		NA	1.7%	3.8%
Current account balance		NA	\$13.75 billion	-\$2.885 billion
Exports		NA	\$77.29 billion	\$64.69 billion
Imports		NA	\$28.5 billion	\$33.76 billion
Reserves of foreign exchange and gold		NA	\$37.26 billion	\$36.03 billion
Debt - external		NA	\$141.6 billion	\$159.2 billion
Stock of direct foreign investment - at home		NA	\$34.53 billion	\$35.38 billion
Stock of direct foreign investment - abroad		NA	\$49.73 billion	\$52.66 billion
Exchange rates (Qatari rials (QAR) per US dollar)		3.64	3.64	3.64

Immediate Effects

This decision is expected to have major economic ramifications, especially on the Qatari economy, both on the short and medium term. The immediate consequence was that Brent crude rose as much as 1.6 percent to \$50.74 a barrel on the London-based ICE Futures Europe exchange, before paring gains to 0.4 percent at 8:34 a.m. in London, and Qatar's QE Index for stocks tumbled 8 percent, the most since 2009 at 10:13 a.m. in Doha. Dubai's benchmark index fell 1.2 percent¹⁶.



Aviation

Also the decision to stop all flights going from the four sanctioning countries to Qatar and closing their airspace in front of Qatari flights is expected to impose extra burdens on Qatari flights as they will lose a large chunk of airspace forcing them to alter flight paths and inevitably add more time and cost to their flights, in addition to losing revenue

¹⁶ Bloomberg

from flights going from Qatar to these four countries.

Large airlines based in these countries, including Emirates, suspended flight service to Qatar. Gulf Air, Egypt Air, Fly Dubai, Air Arabia, Saudi Arabian Airlines and Etihad Airways suspended their flights to and from Qatar. Egypt, Saudi Arabia, and the United Arab Emirates are also banning overflights by aircraft registered in Qatar. Bahrain is severely restricting overflight access to any Qatari aircraft.

Qatar Airways in response also suspended their flight operations to the Saudi Arabia, the UAE, Egypt, and Bahrain.

Pakistan International Airlines sent special flights to bring back over 200 Pakistani pilgrims stuck at Doha airport. Over 550 Pakistani pilgrims at Doha Airport were flown to Muscat.



Land Borders, Trade, and Food

Saudi Arabia had also announced that it will close its land borders with Qatar, which happens to be the only land border that Qatar has. As a result, Qatar will become

fully reliant on air and sea freight, which will increase the costs of its imports which will cause immediate inflation, most notably on food products since it is estimated that 40%¹⁷ of its food imports come through Saudi Arabia. This will place more burdens on the average Qatari citizen and if continued, it will cause the Qataris to practice political pressure on their government to ease the situation one way or another.

The same situation applies to the country's construction projects as it will face shortage in key materials, causing them to be delayed until the market adjusts to the new reality. This will also mean that the cost of materials, thus construction projects, will surge posing a threat over the country's booming construction sector at a time where Qatar is getting ready to host the 2022 football world cup and is in need to finish the infrastructure it needs as soon as possible, which will draw attention from FIFA making it question the country's readiness to host the event, increasing the cost of maintaining the status quo.

In 2015 the UAE was Qatar's sixth largest trading partner as it received 3.67 billion USD or 4.6% of Qatari exports followed by Saudi Arabia and Egypt receiving 819 million USD or 1% each, and then Bahrain receiving 183 million USD or 0.23%. Qatar's total exports has reached 79.9 billion USD in 2015.

As when it comes to imports we can see that in 2015 Qatar imported 8% or 2.76 billion USD of its needs from the UAE followed by Saudi Arabia reaching 1.53 billion USD or

¹⁷ BBC

4.4%, Egypt 368 million USD or 1.1%, and Bahrain reaching 318 million USD or 0.92%. Qatar's total imports has reached 34.7 billion USD in 2015.

Qatar's trade with Saudi Arabia, Bahrain, and the UAE constitutes 85% with Qatar's trade with GCC countries in 2016, while its trade all of GCC countries had reached 11 billion USD in 2016, which constitutes 86% of its trade with Arab countries and 12% of its international trade, suggesting that trade will likely suffer the most of all other sectors.

Petroleum gas, crude petroleum, and refined petroleum comprise 85.1% of Qatar's exports, most of which are exported through the sea and will be less likely to affect that since it touches on global energy security and not just Qatar itself.

People and Business

Citizens of Saudi Arabia, UAE, and Bahrain will no longer be allowed to travel, live, work, or pass through Qatar and vice versa. Egypt has not yet issued such a decision, but given the current circumstances, Qatar could ask for Egyptians working in Qatar to leave the country and go back to Egypt, posing a great threat on the already dwindling Egyptian economy, as well as local and international firms and businesses operating in the gulf states.

Gulf firms and businesses operating in Qatar and vice versa may also have to close, at least temporarily as a result of the crisis, which will cause the loss of many jobs for both locals and expats working in them, and a loss of revenue for these businesses,

diminishing investors' confidence in the gulf states and the region as a whole. An example of this is the Saudi football team Al-Ahli which announced today after the news broke that it will cancel a sponsorship deal with Qatar Airways.

Interest rates on Qatari bonds is expected to increase, thus increasing the cost of borrowing and causing the Qatari debt to become less sustainable. Insurance rates will increase which will result in increasing the cost of doing business in the country, and the Qatari growth model will be put to test.

Sanction-imposing countries will also likely to feel some repercussions as business dealings between them and Qatar will be halted or terminated. Workers from those countries, especially Egyptians living and working in Qatar, will be affected which will have a catastrophic impact on their countries' economies.