

The changing nature of the Gulf politics (abstracts)

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The following is an abstract from a recent socio-political analysis of the Persian Gulf region, by Auriga Analysis and its affiliate in the Gulf, H. Tabesh.

The changing nature of Gulf politics and societies

A transition is under way in most Gulf countries but the final outcome is hard to predict. Debates on reform of political, social and economic structures proceed at different speeds in the different states and future leadership is not always clear.

U.S. policy cannot determine the outcome of these debates but it will impact on them. In the same way, the choices made by Gulf States will help to shape thinking in Washington. But as events in the last few years have shown, the interaction between domestic politics in the Gulf and U.S. policy is becoming more complex, less predictable and more risky. Controversy over Saudi Arabia in the U.S. is matched by antipathy towards the U.S. in the Gulf.

The political tensions do not preclude growing investment interest in the region. The smaller states in particular are making great efforts in bringing more international investment by developing infrastructure, improving regulation and increasing their economic openness. While international investors are actively seeking out opportunities in the region, political and security risks will deter them.

Investors can mitigate their risks by looking more closely at individual states and assessing their exposure. The risks in Saudi Arabia are clearly of a different order from the other countries in the region, principally because of concerns about internal security and domestic politics.

Gulf States face different risks

Beyond Saudi Arabia, Gulf States face divergent risks:

- Oman is geographically distant from the main risk centres and has made investments in its security. Though its attractions in terms of investment possibility are smaller, its security risks are also lower.
- Kuwait has already had to confront security challenges and while it remains exposed because of its proximity to Iraq and Iran, it is making measured progress on economic and political reform. It has significantly modernized its forces since the first Gulf war.
- Bahrain and Qatar are busily developing infrastructure and proving very attractive to investors but they are very dependent on the U.S. presence for their external security, such as air and missile defence. This may prove useful in the immediate future but it also creates wider vulnerabilities and uncertainties.

- U.A.E has larger, more modernized security forces, and despite appearances is a very controlled environment. It is investing in infrastructure but faces concerns about the quality of economic governance.

Security risks in Saudi Arabia are high and a serious concern to investors. Bahrain, Kuwait, Qatar and U.A.E. all face problems, of a lower order. Differentiation between them will depend on investment in security, since the threats are relatively comparable. Oman is the least challenged, again mainly because of geography.

Political risks internationally, regionally, and domestically are all significant in Saudi Arabia. The smaller states are making comparable efforts to reduce risk through reform and closer relations with the U.S.

Business risks are more variable across the region. Bahrain's long-term investment in the financial services and telecoms sectors is paying dividends; U.A.E. is an established financial centre. Qatar has become the rising star of the Gulf, set to make its mark. Kuwait and Oman have more work to do.

International investment in the Gulf States will be a critical factor in their success over the next few years. In most cases, this is not because of the need for capital to secure their future in purely financial terms. But international investment will help these states to become more interlinked with the rest of the world; it will bring vital skills and technology transfer; and it will assist in economic diversification, which is required to provide a solid social and economic foundation for the future.

There are real differences in the risks involved in each state. Saudi Arabia is clearly the riskiest venture for investors, because of security and political issues that will endure for years to come. Oman presents the lowest risks, though it is probably fair to say that it is not attracting the same level of international investment interest as the U.A.E., Bahrain and Qatar. Each state is competing to offer a more attractive, stable haven for its own people and for investors.

Measures to undertake

If they are to succeed in bringing in investment, the G.C.C. States need to

- Show foreign investors they are tackling the security challenges they face. This will mean improving domestic capabilities, especially in the areas of air defence and counter-terrorism. Several Gulf States have built expensive military capabilities that in many cases are not sustained by local capacity, not targeted at the real threats, dependent on foreign assistance or presence and lacking regional interoperability. The pressing need is to spend money more smartly. The emergent risks in the region include not just terrorism but the spread of ballistic missiles and cruise missiles; the ground-based, air and naval forces accumulated or planned by many Gulf States will not be adequate for this.
- They need to satisfy international business that they are safeguarding economic and financial governance. Events of the past three years have made international investors

more concerned about regulation and supervision. Many of the states of the Gulf have taken action to reassure Western governments; they need to make sure that their efforts and their systems are well understood by business.

- They need to better focus their efforts in the field of political and social reform and on potential investors. The gap between their systems and those of Europe and America is more evident than ever, even though in many cases real changes are under way. It is not just a question of reform or of communication, but of making clear their willingness to change.

The states of the region are all moving towards a more open approach to international investment; they are improving and modernizing economic and financial regulation and they are spending on business infrastructure. From this point of view they present a more attractive investment opportunity with reduced risks.

The dilemma, then, is how to resolve concerns over risk – especially security risk - while continuing to grow economically, attract more investment and trade and improve their political stability.

Security in the region in the recent past has been provided by the United States through its extensive military presence and its political focus on the region. America has now relocated many of its forces outside Saudi Arabia, to Qatar in particular. How long they will stay and how they would react to a serious increase in instability in Saudi Arabia or Iraq is a moot point.

The moment when the Gulf States might need the U.S. most – in the event of a sudden increase in instability – might be the moment when the U.S. chooses to move to more distant bases. The domestic debate in America on relations with the Gulf is volatile and unpredictable. The impact on the Gulf States themselves of the prolonged U.S. presence is also uncertain. In short, the American presence is not the solution for the long term.

Saudi Arabia is the linchpin of any regional arrangements, and yet it is Saudi Arabia that presents the most persistent and disturbing problems. Each of the smaller Gulf States will have to find its own balance of self-reliance, interaction with the U.S. and regional arrangements. This will require greater national responsibility and more focus on indigenous capabilities while at the same time it will demand the strongest possible relations both regionally and globally.

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