

## 5. Socio-Economic and Political Impact of Covid-19 on the GCC States

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For many years political analysts have argued that the rentier-economy and welfare-state model in the Gulf Cooperation Council (GCC) states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) is un-sustainable.<sup>1</sup> For decades GCC governments have provided their citizens with education, health care, guaranteed employment, and many other public services and material benefits free, or almost free, of charge in return for political acquiescence, the so-called, “no taxation, no representation bargain”.<sup>2</sup> At least since the early 2000s many scholars of the Gulf region have called on the states to re-negotiate the social contract, meaning imposing taxes and, in return, giving their citizens some political rights, including having a voice in how their governments are run.

This chapter argues that this call for re-writing the social contract is a valid and reasonable argument, but the time for its full implementation has not come yet. For several years the GCC states have imposed and collected taxes and their citizens have been granted some space to exercise a number of political rights. They are not one-man authoritarian regimes like Saddam Hussein’s Iraq or Muammar Gaddafi’s Libya, rather, most

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<sup>1</sup> Gregory III Gause, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States*, New York, Council on Foreign Relations, 1994.

<sup>2</sup> H. Beblawi and G. Luciani, *The Rentier State: Nation, State and Integration in the Arab World*, London and New York, Croom Helm, 1987.

political decisions are made by consensus between different tribal and societal leaders. Different formal and informal power centers participate in the decision-making process. The voice of public opinion and civil society is growing louder. Certainly, this cannot be solely attributed to the state's diminishing financial capabilities. Rather, the revolution in information technology and social media has contributed to the rise of citizens' participation in the political process and demand for transparency, accountability, and good governance.

However, these trends are modest; much more is still needed. For example, according to the latest report by Freedom House, only Kuwait is "partly free", while the other five GCC states are "not free".<sup>3</sup> Gulf rulers enjoy tremendous power and are not likely to give it up any time soon. Since March 2020, the Covid-19 pandemic has dealt a heavy blow to socio-economic activities in the GCC, like it has in the rest of the world. But, as this chapter will demonstrate, the GCC governments are better prepared to deal with these crises than most other countries. They are well-equipped to overcome any opposition to their rule by offering a combination of significant rewards and severe punishments. Furthermore, given the Gulf governments' substantive investments around the world and lucrative arms deals, their abuse of basic human rights is less scrutinized than the case in other countries.

## **The Dual Crises – Covid-19 and Collapse of Oil Prices**

Since late 2010, the GCC states and the broader Middle East have been dealing with numerous political and security challenges created by the so-called Arab Spring. However, unlike some of their neighbors, the Gulf leaders have survived the political uprising. The most vulnerable state was Bahrain, given

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<sup>3</sup> Freedom House, *Freedom in the World 2020*, "A Leaderless Struggle for Democracy".

its sectarian composition and the fact that it is not as rich as some of its neighbors. Still, Kuwait, Qatar, Saudi Arabia, and the UAE provided generous financial assistance to their less wealthy GCC member-states Bahrain and Oman. In addition to their ability to successfully manage the political storm at home, some of the GCC states have been involved in regional crises including civil wars in Syria, Libya, and Yemen and intense economic pressure in Egypt. These active regional roles have proved costly both politically and financially. It is not clear how much domestic support Gulf governments enjoy in their interventions in regional conflicts, but the international community has strongly condemned foreign intervention in Yemen and Libya. Furthermore, Gulf states' involvement in regional conflicts has added more restraints on their financial systems.

It was in the midst of these tensions that Covid-19 hit. The Gulf region, and indeed the entire world, was not prepared. The virus has triggered the deepest global recession since World War II. This is a crisis like no other and there is substantial uncertainty about its impact on people's lives and livelihoods. Much depends on the epidemiology of the virus, the effectiveness of containment measures and the development of therapeutics and vaccines, all of which are hard to predict.<sup>4</sup> In response, widespread policy measures have been implemented to help limit the spread of infection. These include the cancellation of large public events, restrictions on air travel, and the closure of schools and government offices. Recent relaxations to mitigation measures have been gradual. Large economic stimulus packages have been offered in the GCC states (and elsewhere). These packages have included measures on health spending, social assistance, and support to small businesses. Since the GCC central banks are pegged with the US dollar, they cut rates in tandem with emergency cuts by the US Federal Reserve.

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<sup>4</sup> G. Gopinath, "The great lockdown: worst economic downturn since the great depression", IMFBlog, 14 April 2020.

The MENA oil exporting countries have been hit by two shocks simultaneously – Covid-19 and the oil price collapse. Stated differently, the severe socio-economic and political impact of the pandemic and global lockdown has been further aggravated by the huge decline of oil prices – the main source of income for all GCC states. True to its inherent nature, the price of oil has seen unprecedented volatility in the last decade during two main crises. The first occurred mid-2014; prices collapsed from more than US\$100/barrel in early 2014 to around US\$30/barrel in early 2016.<sup>5</sup> Prices partially recovered until their collapse in early 2020, following the global spread of Covid-19.

Since the dawn of the oil era, prices have been subject to a certain extent of volatility. But the depth of change in early 2020 was unprecedented. At the start of the year, one barrel of oil was sold for over US\$60, but on 20 April, the price of West Texas Intermediary (WTI), the US benchmark for light crude, fell well into negative territory for the first time in history. Sellers had to pay customers to take unwanted oil – an unimaginable and untenable ask of the industry. Like any commodity, the price of oil reflects the balance between supply and demand. The drastic changes in daily social and economic activities around the world in response to the Covid-19 pandemic have pushed the global oil market out of balance. On the supply side, in March the members of the Organization of Petroleum Exporting Countries (OPEC) and other major producers, mainly Russia, were unable to extend a previous agreement signed to cut production a few years ago. This failure permitted a lift of all restrictions and major producers started competing for the market share. In early April, the global market was flooded with a substantial surplus. This excessive production prompted world leaders to renegotiate a new oil deal under which OPEC members and other producers agreed

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<sup>5</sup> Shebabi, *Quantifying Dutch Disease Effects and Asymmetry in Economic Responses to Oil Price Volatility in Kuwait*, The Oxford Institute for Energy Studies, July 2020.

to cut production. This agreement was further endorsed by the world's largest economies through the G20.

On the demand side, daily global consumption fell by approximately 30 million barrels in early 2020. This significant collapse in consumption is likely to persist for some time in light of the ongoing global health crisis. Refineries are unwilling to turn oil into gasoline, diesel, and other products because so few people are commuting or taking airplane flights and international trade has slowed sharply. This combination of excessive production and substantial reduction in utilization has created a new challenge concerning global storage facilities for the abundance of oil the industry continues to pump out. In a nutshell, there is an enormous global surplus met with little demand, and possible storage venues are dwindling. Until the Covid-19 pandemic eases and economic growth returns, downward price pressure will continue.

### **The GCC States' Response to the Two-Fold Crisis**

The Gulf Arab states, like the rest of the world, were overwhelmed with the rapid and devastating spread of Covid-19, which, among other things, contributed to the collapse of oil prices. Since March 2020, they have focused their efforts on mitigating the short term and long term impacts of these two crises. A key challenge is that strategies for addressing both must be adopted in an environment of very high uncertainty. There is a great deal of uncertainty regarding if and when the virus will be contained and subsequently on the shape and speed of national, regional, and global economic recovery. This means that Covid-19 containment is strongly connected to the rise in oil demand. In other words, the health crisis and the oil price collapse overlap with one another.

Confronted with this two-fold crisis, the GCC governments, like other governments around the world, imposed lockdowns, closed schools and mosques, banned gatherings and even scaled down the pilgrimage/*hajj*. They also laid off millions of foreign

laborers. Accurate figures on their financial losses are not yet available, but in April 2020 the International Monetary Fund (IMF) projected that growth in the MENA region will contract by more than 4% and in the GCC states by 2.7% in 2020, and the current account will shift from a surplus of 5.6% of GDP in 2019 to a deficit of 3.1% of GDP in 2020. Three months into the Covid-19 crisis, the IMF revised the projection to a larger growth decline of 4.7%.<sup>6</sup> This more pessimistic outlook is due to the sharp decline in oil prices and disruptions in trade and tourism triggered by the pandemic. In the coming few years, governments will be forced to cut spending, raise borrowing, and delay or halve government investments. Despite this gloomy short-term economic outlook, the sky is not falling. The medium to long term outlook looks bright. Both the IMF and the World Bank project that economic growth will accelerate in 2021. The real GDP rate (adjusted for inflation) in all six states will grow:<sup>7</sup>

	Real GDP Growth	
	2020	2021
<b>Bahrain</b>	-3.6	3.0
<b>Kuwait</b>	-1.1	3.4
<b>Oman</b>	-2.8	3.0
<b>Qatar</b>	-4.3	5.0
<b>Saudi Arabia</b>	-2.3	2.9
<b>UAE</b>	-3.5	3.3

World Bank analysts echo similar sentiments. They project that the GCC economies will rebound from -4.1% in 2020 to 2.2% in 2021. This optimistic projection is based on several assumptions, including that: the pandemic subsides, investment recovers, foreign investment restrictions relax, regulatory

<sup>6</sup> International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, 2020 Update, 13 July 2020.

<sup>7</sup> Ibid.

environments improve and diversification programs continue.<sup>8</sup>

Furthermore, long ago, the GCC states (and other countries) created sovereign wealth funds (SWFs), also known as oil funds.<sup>9</sup> These include the Abu Dhabi Investment Authority (1976), Kuwait Investment Authority (1953), Qatar Investment Authority (2005) and the Saudi Public Investment Fund (1971). Over the last few decades, these funds have accumulated substantial financial assets. In early 2020, the Sovereign Wealth Funds Institute provided the following estimates:<sup>10</sup>

Abu Dhabi Investment Authority (ADIA)	US\$580 billion
Emirates Investment Authority (EIA)	US\$45 billion
Kuwait Investment Authority (KIA)	US\$239 billion
Investment Corporation of Dubai (ICD)	US\$534 billion
Mubadala Investment Company	US\$232 billion
Bahrain Mumtalakat Holding Company	US\$19 billion
Public Investment Fund	US\$360 billion
Qatar Investment Authority (QIA)	US\$295 billion
Sharjah Asset Management	US\$793 million

These huge financial assets mean that despite the heavy blow Covid-19 has dealt to the GCC's economies, the global system, and oil prices, the rentier state is not about to collapse. As in previous crises, the GCC governments are likely to utilize some of their financial reserves in these SWFs to stimulate their economies, buy off their opponents and keep the majority of their citizens happy. The SWFs provide the GCC states with large financial cushions and serve as buffers against short-term economic downturn and political instability. These buffers are depleting, but they remain adequate for most GCC states.

<sup>8</sup> World Bank Group, *Global Economic Prospects*, June 2020.

<sup>9</sup> Xu Yi-chong and G. Bahgat, *The political economy of sovereign wealth funds*, London, Palgrave Macmillan, 2010.

<sup>10</sup> Sovereign Wealth Fund Institute (SWFI), *List of 25 sovereign wealth fund profiles in Middle East*.

## Political Opposition

There is no doubt that the GCC states were not prepared to address the enormous health challenges triggered by Covid-19. Adding fuel to the fire, the outbreak of Covid-19 and the wide-ranging measures introduced to slow its advance have precipitated an unprecedented collapse in oil demand, a surge in oil inventories and, in March 2020, the steepest one-month decline in oil prices on record.

It is important to neither overestimate nor underestimate the socio-economic and political impact of this two-fold crisis. Compared with other regional powers, certainly, the GCC states collectively have not handled the crisis as well as Jordan has, but they have done much better than neighboring Iran. Figures from World Health Organization and Johns Hopkins University compare the GCC states' Covid-19 response to that of both Jordan and Iran as of early August 2020:

Country	Infected cases	Deaths <sup>11</sup>	Deaths/100k pop <sup>12</sup>
<b>Bahrain</b>	43,307	161	10.13%
<b>Kuwait</b>	70,727	471	11.28%
<b>Oman</b>	81,067	502	10.39%
<b>Qatar</b>	112,383	180	6.47%
<b>Saudi Arabia</b>	285,793	3,093	9.18%
<b>UAE</b>	62,061	356	3.70%
<b>Jordan</b>	1,237	11	0.11%
<b>Iran</b>	322,567	18,152	22.17%

In addition to these efforts to contain the virus, the GCC governments, like some other regimes, have taken advantage of the emerging uncertainty to further expand their strict

<sup>11</sup> World Health Organization, “WHO Coronavirus Disease (Covid-19) Dashboard”, 2020.

<sup>12</sup> Johns Hopkins University & Medicine, Coronavirus resource Center, *Mortality Analyses*, 2020.



restrictions on civil society and any potential political opposition. Although declaring a state of emergency is not inherently illegal, it is evident that a number of governments around the world are using this constitutional tool to severely restrict fundamental freedoms, such as freedom of information, expression, assembly and association. In reality, many measures that were imposed with the pretext of combatting the pandemic are in fact being used as an excuse to repress government opposition.

Furthermore, there has been an increase in the use of surveillance technology as a means to track the spread of the virus. On one hand, this practice has an advantage in that people who have come into contact with an infected person are immediately informed so that they can be tested and remain in self-quarantine. On the other hand, this practice can, and indeed has been used to, encroach on the privacy of citizens as authorities are able to monitor political opponents and their movements. This means that Covid-19 has become both a major public health threat and, simultaneously, could lead to severe restrictions on individuals' privacy and freedom of movement.<sup>13</sup>

In 2020, the UAE enacted a temporary law that allows the authorities to access individuals' WhatsApp calls and conversations, as well as their Skype and Google accounts. In addition, people residing in the country must complete an online form explaining a valid reason for their trip when leaving their homes. This form should be presented to the authorities if questioned on the street. The law gives the government access to the individuals' biometric identifications, phone numbers, and car license plate numbers. The tracking technology has been used to identify people who violate imposed social distancing measures as well as to track down individuals who allegedly spread "false information".<sup>14</sup>

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<sup>13</sup> M. Hedges, "Gulf States Use Coronavirus Threat to Tighten Authoritarian Controls and Surveillance", *The Conversation*, 21 April 2020.

<sup>14</sup> A. Admin, *Covid-19: How the Pandemic Used by GCC Governments to Double Down on Human Rights Violations*, Americans for Democracy & Human Rights in Bahrain,

## Conclusion

It is too early to provide an accurate assessment of the medium and long term impact of the Covid-19 crisis on the socio-economic and political environment in the GCC states. The analysis in this chapter identifies three trends. First, governments in the Gulf and around the world are playing a bigger role in the economy to combat the pandemic and provide economic lifelines to peoples and firms. This expanded role is crucial but it also increases opportunities for corruption. To help ensure the money and measures are helping the people who need it most, governments need timely and transparent reporting, ex-post audits and accountability procedures, and close cooperation with civil society and the private sector. As public finances worsen, countries need to prevent the loss of funds caused by corruption in public spending.<sup>15</sup>

Second, the GCC governments have responded to the pandemic fallout by introducing more prohibitive immigration policies. An unspecified number of foreign workers had been sent back to their home countries. This deportation of tens of thousands of migrant workers is certain to have significant impact in both their countries of origin and in the Gulf states. For decades, human rights organizations have been monitoring the conditions of foreign workers in the Gulf states closely and have expressed concerns about their social welfare. Due to Covid-19, the unhygienic conditions of the overcrowded labor camps have further deteriorated. These include lack of access to clean running water and restricted access to basic medical care. Furthermore, living conditions and crowded camps make social distancing out of the question. It is not clear whether these foreign workers will be allowed to go back to the Gulf states when the virus is contained. Some of these states with small population (i.e. Kuwait, Qatar, United Arab Emirates)

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1 June 2020.

<sup>15</sup> V. Gaspar, M. Muhleisen, and R. Weeks-Brown, “[Corruption and Covid-19](#)”, IMFBlog, 28 July 2020.

cannot maintain their economic prosperity and their way of life without a large number of expatriates.

Thirds, despite the two-fold crisis due to the collapse of oil prices and Covid-19, it is important to emphasize that none of the GCC governments has experienced any serious political challenge. There is no well-organized, grass roots opposition. There are at least two reasons for this lack or weakness of such opposition. First, GCC states are generally among the richest countries in the world. They hold massive oil and natural gas reserves and over the years have accumulated substantial wealth. They use their financial muscles to brutally punish opponents and reward supporters. Second, given their lucrative investments around the world, Gulf states are under very little, if any, international pressure to introduce political reform and any real measures of transparency, freedom, and accountability.

Against this background, Gulf citizens who are not satisfied with how their governments have responded to the financial and health crises have turned to social media to air their grievances and/or have left their countries for the United States, Canada, or Europe. Chats on social media provide very modest criticism of official policies. Despite talk of political reforms, Gulf governments have strongly and brutally responded to any criticism of their policies. Their tactics include stripping opponents of their citizenships, long-term imprisonment, and even execution. For critics residing in the West, some GCC states have forced their families to pressure the dissenting relatives into silence, disown and discredit them, and denounce their actions. Families that fail to comply face travel bans, social isolation, job loss, and even incarceration.<sup>16</sup>

To sum up, despite the severity of the financial crisis, triggered partly by Covid-19 and the overwhelming rate of infection, there are no signs of any serious political opposition in any of the Gulf states. In Oman, Sultan Qaboos bin Said died on 10

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<sup>16</sup> O. Salem, "Arab Dictators Are Learning to Love Collective Punishment", *Foreign Policy*, 4 August 2020.

January 2020 and was succeeded by his cousin Haitham bin Tariq in an ordinary fashion. The Emir of Kuwait Sabah al-Ahmad al-Jaber al-Sabah died on 29 September 2020, at 91 years old, and was succeeded by Nawaf al-Ahmad Al-Jaber Al-Sabah, who is 83 years old. The King of Saudi Arabia Salman bin Abdulaziz al-Saud is 84 years old. His son, Crown Prince Mohammad bin Salman has been consolidating his power since 2015. A close examination of the GCC states' responses to the Coronavirus crisis shows that there is mild criticism, but no well-organized dissent movements. If there will be any change, it is more likely to come from the top rather than the bottom. The information-technology revolution and the fact that the great majority of Gulf citizens are enjoying access to uncensored news and information suggest that a popular change might take place, but it is likely to take some time.