

Trade Digest

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Qatar's Diplomatic Strain Sparks Concerns in Middle East

On Monday 5 June 2017, Saudi Arabia, the United Arab Emirates (UAE), Bahrain, and Egypt announced that they were cutting diplomatic ties with Qatar. Diplomatic officers were called back by the four countries, while the land, sea, and air borders with Qatar were shut. The row began when the four Arab states claimed that Qatar's support for certain Islamist groups, the role of the government-backed media Al-Jazeera, and Qatar's close ties with Iran were causing instability in the region.

The tension raised further as other countries, including Yemen, Libya, the Maldives, and a small number of African nations also joined sides with Saudi Arabia in the dispute. Even though Kuwait and Oman offered their support in mediating the conflict within the Gulf, there are no signs that the stand-off is likely to be resolved anytime soon. On Monday 11th June, Qatar's foreign minister reaffirmed that it will not give up its foreign policy independency, even though the UAE had threaten to intensify the blockade. Food deliveries from Iran and the deployment of Turkish troops to Qatar also heightened the tensions by angering Saudi Arabia and its allies. The position of the United States remains unclear since both Saudi Arabia and Qatar are its significant allies.

The blockade imposed on Qatar by fellow Arab nations has the potential for creating serious economic harm. In spite of its tiny size with mere 2.7 million population, Qatar nevertheless has a GDP per capita of over USD 60,000, making it among the highest in the world. The country is the largest exporter of natural gas and has attracted a large amount of foreign investment in recent years. Nonetheless, it still relies heavily on imports of other goods from the rest of the world, primarily via Saudi's land border and Dubai's ports which are no longer accessible. Food prices in Qatar may rise as a result of the blockade, while the shipment of construction materials, including those designated for the World Cup 2022 project, may be interrupted. The closure of airspace also means that Qatar Airways has to re-route all of its western services towards Iranian and Turkish space.

For Thailand, the direct effect from the situation is somewhat limited, at least for the moment. The approximately 1,000 Thai labors working in Qatar may be faced with some increase in food prices if the crisis prolongs. Thai exports to Qatar, worth USD 285.69 million or 0.12% of total exports in 2016, may also face some disruption as the UAE ports are now closed to Qatar. Thailand's import of oil and gas from Qatar should be able to continue as usual since Iran and Oman are in control of the Strait of Hormuz, the strategic waterway connecting the Persian Gulf and the Indian Ocean. Neither Iran nor Oman have shown any aggression towards Qatar as of now. However, if the situation continues to escalate, the global oil market may be affected and Thai laborers in the Middle East may be forced to evacuate the region.

UK Election and Its Implications on Brexit

Last week, on the 8 July 2017, the people of the United Kingdom went to the polling station again. This snap general election – announced on 18 April 2017 – came as a surprise move by the UK Prime Minister Theresa May, who had previously denounced the possibility of an early election. It was speculated that the rationale behind Mrs. May's decision was the opportunistic timing that would enable her party to garner more parliamentary seats and effectively lessen opposition against her during the course of the upcoming Brexit negotiations.

In actuality, the election results weakened the position of the Prime Minister and her party. Indeed, the Conservative Party lost 13 seats to end up with a lower total of 317, effectively ending their majority in the House of Commons, the United Kingdom's lower house. In contrast, Jeremy Corbyn's Labor Party – against early estimates – gained 33 seats to increase the power of the opposition leader in Britain's Parliament. More importantly, the results diminishes Mrs. May's power in the upcoming Brexit negotiation process, which is due to start on 19 June 2017.

Forming a coalition government is currently Mrs. May's top priority. Taking into consideration differing party ideologies on both Brexit and domestic policy, finding a suitable partner to form a workable government will be difficult for the Conservative Party, as will maintaining such a partnership of convenience.



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In terms of Brexit, the UK's most pressing matter, it is speculated that Mrs. May will be forced to consider lightening the stance of her Brexit negotiation strategy. Prior to the election, her Party's manifesto confirmed its commitment towards a complete withdrawal of the UK from the European Union. This strategy – colloquially known as Hard Brexit – means relinquishing the UK's membership of the European Single Market and the Customs Union, and pursuing alternative free trade agreements with individual nations or group of nations. In contrast, the opposite extreme of Hard Brexit – also referred to as Soft Brexit – encompasses the UK's full compliance with the Single Market and Customs Union. Under Soft Brexit, the UK will be forced to accept the terms of Four Freedoms – the freedom of movement with respect to goods, capital, services, and labour – which form the foundation of the European Single Market. This position is rather similar to that of Norway, Iceland, Liechtenstein and Switzerland. Although not members of the European Union, the four European nations do enjoy tariff-free access to the EU, while accepting the responsibility of an annual contribution to the EU and full compliance with the terms of the Single Market. Mrs. May is strongly opposed to this stance having famously said: “no deal is better than a bad deal.”

Now without a majority in the UK House of Commons, Mrs. May will be entering the Brexit negotiations under increased pressure from Mr. Corbyn, whose party has vowed to protect the UK's interests from the Single Market and the Customs Union. All in all, it remains to be seen how the new UK coalition government will reach a consensus on its negotiating stance. With time ticking by, the UK will have less time to negotiate its exit with the EU. The current negotiation deadline is late March 2019, two years from the date on which Mrs. May officially announced the intention of the UK to leave the EU by invoking Article 50.

Concerning Thailand, limited connection between Thailand and the UK in terms of trade will shield Thailand from any direct negative effect, with the exception on short run stock market and exchange rate fluctuations.

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If you have any comments or questions regarding Trade Digest or any matters discussed herein, or if you are interested in finding out more about Bolliger & Company (Thailand) services, please contact any of the persons below:

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