THE COVID-19 OUTBREAK: IMPLICATIONS FOR RELATIONS BETWEEN EUROPE AND THE GULF

April 2020
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APRIL 2020
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On March 11 2020, the World Health Organisation (WHO) declared the Novel Coronavirus (COVID-19) a global pandemic. It is considered the most serious respiratory virus since the 1918 H1N1 influenza. By April 6, there were more than 1,250,000 infections worldwide and over 70,000 resulting deaths.\(^1\) These numbers are dynamic and will continue to increase significantly as the virus continues its relentless global spread.

This paper will provide an overview of the situation in Europe and the Gulf region, with an emphasis on the some of the key implications, both regionally and globally, of the COVID-19 outbreak going forward. While throughout both regions, various mitigation and suppression policies have been put in place, there is, at the time of writing, no clear indication of how quickly the various policies will take hold or how long the numerous restrictions being imposed will remain in place.

In Europe, which by the middle of March had become one of the epicentres of the worldwide outbreak, all countries went into some form of lockdown, with many limiting themselves to the provision of critical services. Similar responses were enacted in the six countries of the Gulf Cooperation Council (GCC). Some countries, like Kuwait, Saudi Arabia and the United Arab Emirates (UAE) began imposing nationwide, partial curfews in a widespread effort to curb the exponential spread of the virus. Bahrain, Kuwait and the UAE emphasised widespread testing and therefore followed the example of a country like South Korea that, through its rigorous testing, was able to slow down the spread of the virus. Given their well-developed health sectors, the GCC countries executed comprehensive strategies that at least to some degree prevented large-scale outbreaks from occurring, compared to other countries.

Given that exact trajectories cannot be predicted and due to the overall dynamic situation, this paper will focus on some of the medium-term consequences that can be anticipated, with those implications dealt with from the relevant European or GCC perspectives. A main focus is on the economic issues that will inevitably have to be confronted as societies regain their momentum and try to avoid prolonged periods of economic downturn. While massive spending programmes have been initiated worldwide in order to prevent a global financial collapse, the current expectation is that the world economy is poised to enter a deep recessionary period, resulting in widespread unemployment and rising state debt levels. With their integrated economies and deep linkages into global supply chains, European and GCC states are bound to be caught up in the global contagion.

\(^1\) Center for Systems Science and Engineering, John Hopkins University,
https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6. The site is updated regularly and reflects the fast-paced changes and increases taking place.
This paper will also analyse some of the other repercussions that will result from the COVID-19 calamity and consider them in the wider context of the EU-GCC relationship. With the international order already in a state of transition and defined by persistent volatility, the coronavirus crisis will throw its shadow on all matters pertaining to regional and international security. This is particularly the case as domestic concerns take precedence and international crisis management and conflict resolution mechanisms are relegated from the first page agendas. This too will have implications for policymaking at both the European and the GCC levels.

**The Coronavirus Pandemic in Europe and the GCC States**

At the outset, a quick overview of the situation at the time of writing is provided. Many of the numbers provided below will of course be seriously outdated by the time of the actual publication of this paper. The intention of this section is therefore not to reflect accurately the actual current situation on the ground. Rather, it is to give a sense of how quickly the COVID-19 crisis has encompassed both Europe and the Gulf Region and to reflect on the environment in which governments on both sides have had to come up with immediate and comprehensive responses.

Following the outbreak of COVID-19 in China, Europe quickly became one of the epicentres in terms of infections and resulting deaths. By March 18, Italy’s registered fatalities had already surpassed those of China, where the virus outbreak first emerged in late 2019. Only a week later, on March 25, Italy’s recorded deaths of more than 7,500 represented a figure double that of China. By April 6 the figure had increased to over 15,500. Other key countries in Europe - France, Spain and Germany in particular - reported exponential increases in their infection cases, reaching over 320,000 cases by April 6. To illustrate how quickly infections began to spread, Germany’s number of cases grew from 1,908 on March 12 to 67,051 on March 31, an increase of more than 3,500% in less than three weeks.

Graph 1 provides an overview over the trajectories of the main countries hit by the virus. Projections for Europe at the time of writing suggesting a peak infection rate of 400,000 to be reached by the second week of April.

The graph also reflects the impact of various mitigation and suppression measures as implemented by most European countries and the key Asian states where the virus outbreak appeared earlier. While countries like South Korea, Singapore and Taiwan immediately instituted widespread virus testing and quarantine procedures, countries in Europe implemented separation mechanisms only in phases and once infection rates had already begun to soar. The result is a much steeper trajectory curve than can be seen in those Asian countries. The curves for GCC countries follow, more-or-less, those of South Korea and Japan (see also Graph 4), as measures to contain the virus were instituted in the GCC States relatively quicker and more comprehensively than in Europe. This is explained in more detail below.
A specific concern for European countries was the considerable increase in the death rate of coronavirus patients when compared to the rates in China and other parts of Asia. As illustrated in Graph 2, by March 30 the percentage increase in death rates in Italy, Spain, France and the UK were higher than those in China and Iran, another country severely impacted by the virus outbreak. European countries by that time had also not reached the peak of the infection rates, as containment measures would only begin to show the curve flattening out in the first half of April. Similarly, the United States followed an even higher trajectory, indicating mounting difficulties as the health care system struggled to respond to the severity of the crisis. One exception has proved to be Germany, where deaths rates stayed below the average seen in other European countries. Here the issue of early and consistent testing appears to have played a key role.2

In response to the escalating situation, by the middle of March European countries began to enact severe restrictions that brought daily life throughout the continent to a virtual standstill. The steps taken were, however, far from uniform, with each EU member state deciding on individual policies that the respective governments felt were politically and socially feasible. While Italy, for example, went on a complete shutdown, extending measures even so far to include all non-critical industries, Germany implemented only so-called non-contact rules (Kontaktsperren) whereby people were still allowed to go to work and pursue essential services but banned from gathering in groups larger than 2 people at a time. Much of the emphasis was placed on social distancing and included simply admonishing people to stay at home and work remotely. Overall, restrictions were implemented differently throughout the continent and were phased in at separate intervals, therefore resulting in a patchwork of measures rather than a unified approach. This fact also accounts to a large degree for the variance in the infection and death rates recorded in Europe as a whole.²

² At the time of writing, it remained unclear as to how long the crisis, and as a result many of the restrictions, would last and when the corner in terms of new infections would actually be turned. Belgium’s Health Minister Maggie De Block responded on March 22: “That’s the million-dollar question. We are now heading to the peak of the epidemic, after which the curve will descend. I think this situation will last for at least another eight weeks.” (Belgium lockdown to last at least another eight weeks,” Europost, March 23, 2020, https://europost.eu/en/a/view/belgium-s-lockdown-to-last-at-least-eight-more-weeks-27635. The general consensus was that restrictions would only be phased out slowly over the summer.
In addition to preventing infections from increasing to the point where they could overwhelm the health systems, Europe also began to address the resulting decline in economic activity and to evaluate the corresponding impact of the virus outbreak on the European economies. All EU member states began announcing substantial increases in their public spending, in order to sustain their economies and to meet the increasing costs of containing COVID-19. An overview of some of the main decisions taken by key EU member states and the UK is provided in Table 1.
# TABLE 1

**Overview of main economic decision taken by key EU states and the UK in response to the Coronavirus Outbreak**  
(Covering announcements made until March 28, 2020)

<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
</tr>
</thead>
</table>
| France  | - Mobilisation of €300 billion of liquidity support for companies.  
         - Enabling the French public investment bank Bpifrance to provide State guarantees on commercial loans and credit lines, respectively, for enterprises with up to 5,000 employees.  
         - Providing state guarantees to banks on portfolios of new loans for all types of companies. This is direct aid to the companies that will enable banks to provide liquidity quickly to any company that needs it. |
| Germany | - Finance Minister Olaf Scholz announced at least €500 billion in loan guarantees, including a €156bn supplementary budget for 2020, a new €100bn economic stabilization fund and €400bn in state guarantees to underwrite the debts of companies affected by the turmoil. The scheme is pledged to provide unlimited liquidity to companies affected by the pandemic.  
         - Making it easier for companies to access loans made by the state development bank and to delay tax payments for struggling businesses. |
| Spain   | - Financial aid package of up to €200 billion in total with €117 billion coming from the public purse and the remainder from private sources.  
         - €100 billion to be made available to businesses in the form of public guarantees.  
         - Workers will be able to receive unemployment benefits even if they had not paid enough in social security contributions. Companies will not have to pay taxes for employees who have been temporarily made redundant. Those becoming unemployed or losing their regular income can postpone their monthly mortgage payments as well as their utility bills. |
| Italy   | - Pledging €25bn to help companies and support exporters, to help homeowners with mortgage payments and people facing unemployment, topping up wages and additional funds for the health sector.  
         - €15 billion in new credit for small and medium-size businesses offered by Italy’s second-largest bank, Intesa Sanpaolo. |
| Poland  | - Introduction of a €47 billion assistance package to protect businesses and employees. In addition to wage payments, businesses will be allowed to delay social insurance payments. The self-employed will get up to 80% of Poland’s minimum wage, with the government helping employers to cover 40% of their employees’ wages.  
         - The state-owned development bank BGK increased guarantees for companies to 80% of loan value. Companies are offered loan guarantees, liquidity support and micro-loans of up to €1,100. |
| UK      | - A £350 billion package of loans and grants, with cash grants of £10,000 for the UK's 700,000 smallest companies, and a three-month moratorium on mortgage payments for homeowners.  
         - UK government to pay 80% of wages for those not working as a result of the crisis. There would be an increase in the value of universal credit and tax credits by £1,000 a year to help approx. 4 million households across the country.  
         - £1 bn of extra support for renters, ramping up housing benefit and universal credit. |
With no general competency in the area of health services throughout Europe, the European Union (EU) focused its response to its core area of the economy. Acknowledging that “the lockdown of our public life is necessary to contain the virus, but it also slows down severely our economy”⁴, the European Commission proposed the activation of the general escape clause for structural adjustment of the EU’s Stability and Growth Pact, in order for member states to pump money into their national economies without having to worry about budgetary limitations.⁵ EU Commission President von der Leyen referred to the decision as “new and never done before.”⁶ The activation allowed EU member states to “spend as much as they need” in order to allow member states to implement national programmes.

Prior to the decision by the European Commission, the European Central Bank on March 18 announced a €750 billion bond-buying programme to address the fallout of the coronavirus.⁷ For Europe, the Eurozone and in particular countries like Italy remain highly vulnerable to financial market speculation. European Central Bank Chief Christine Largarde stated on March 17: “Extraordinary times require extraordinary action. There are no limits to our commitment to the Euro.” On the issue of so-called Corona- or debt bonds, as a mechanism whereby European countries could borrow money within the framework of common risk, there was no agreement at the EU level following an EU leaders meeting on March 26.

As the fallout from the COVID-19 crisis emerges, further measures by all European countries and the EU are likely to be enacted. The implications of those decisions are put into context below.

While Europe quickly emerged as a core region of the virus outbreak, the GCC states saw their own numbers increase substantially throughout March. By the April 6, 2020, the total number of cases in all 6 GCC states came to 7,453, with 55 deaths. A breakdown by country is provided in Table 2.

<table>
<thead>
<tr>
<th>Table 2: Coronavirus Cases and Death Reported in GCC States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>Total reported</td>
</tr>
<tr>
<td>infections</td>
</tr>
<tr>
<td>Total fatalities</td>
</tr>
</tbody>
</table>


All GCC countries therefore reported serious infection rates. While there were no specific concentrations in any particular area, a report in the Guardian newspaper on March 20 indicated an outbreak in one of Qatar’s largest labour camps for migrant workers, with the camp apparently being put under a complete lockdown after numerous construction workers were said to have become infected with Covid-19.8 Saudi Arabia cordoned off the district of Qatif in the Eastern Province, reportedly due to the influx of cases from Iran.9 What both these incidents illustrated is the speed with which the virus gripped entire parts of a particular country.10 Infection rates, meanwhile, have stayed on a lower trajectory than was witnessed in Europe (see Graph 4), a development attributed to the higher testing rates carried out in the GCC States than elsewhere.

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10 This could also be seen in the Lombardi region of Italy.
In response to their crisis, the GCC therefore closely followed similar steps to those taken previously by countries in Asia such as South Korea, Taiwan and Singapore. This included foremost a specific emphasis on much wider testing rates, as can be seen in Graph 5, with three GCC countries leading the way. As a result, GCC states that followed extensive testing procedures were able to isolate those cases with infections quicker and to separate them from the rest of the population. Already by March 17, the United Arab Emirates had already carried out more than 125,000 tests nationwide.11

On the social side, the GCC states responded to the outbreak of COVID-19 in similar ways to those in Europe, including shutting down public spaces, imposing restrictions on the population and limiting overall economic activity.12 Yet the measures initiated in the GCC states were more far-reaching comparatively and included earlier and more comprehensive limitations on international travel, shutting down entire transport systems and even imposing encompassing curfews. In Saudi Arabia a critical element was the decision by authorities to cancel the Umrah pilgrimage and to restrict access to the holy city of Mecca for non-residents.

An overview of the main decision implemented by the GCC states, those taken in addition to closing down schools and restricting public activities, is found in Table 2.

### TABLE 2

**Overview of main decisions taken to restrict daily life by the GCC States in response to the Coronavirus Outbreak**  
(Covering announcements made up to March 27, 2020)

<table>
<thead>
<tr>
<th>Country</th>
<th>Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>- Banned public gatherings of more than 5 people</td>
</tr>
<tr>
<td></td>
<td>- Suspended Visa on arrival process</td>
</tr>
<tr>
<td>Kuwait</td>
<td>- Imposed nightly curfew from 5 pm to 4 am</td>
</tr>
<tr>
<td></td>
<td>- Closed its borders and suspended all commercial flights to and from Kuwait</td>
</tr>
<tr>
<td></td>
<td>- Banned all mass prayers</td>
</tr>
<tr>
<td></td>
<td>- Extended a suspension of schools and universities until Aug. 4</td>
</tr>
<tr>
<td>Oman</td>
<td>- Closed borders and halted public transport</td>
</tr>
<tr>
<td></td>
<td>- Announced formal proceedings against those spreading false information</td>
</tr>
<tr>
<td>Qatar</td>
<td>- Restricted entry into the country to Qatari nationals only</td>
</tr>
<tr>
<td></td>
<td>- Halted public transportation</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>- Suspension of the Umrah (year-round pilgrimage)</td>
</tr>
<tr>
<td></td>
<td>- Imposed a curfew from 3 pm to 6 am. The cities of Riyadh, Mecca and Madinah were put on complete lockdown.</td>
</tr>
<tr>
<td></td>
<td>- Halted all international passenger flights</td>
</tr>
<tr>
<td></td>
<td>- Suspended all domestic flights, trains, buses and taxis</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>- Suspension of all international travel in and out of the country</td>
</tr>
<tr>
<td></td>
<td>- 14-day mandatory quarantine for everyone entering the UAE in addition to severely curtailing international travel</td>
</tr>
<tr>
<td></td>
<td>- Strict social distancing guidelines</td>
</tr>
<tr>
<td></td>
<td>- Suspending all work visa issuance and visas-on-arrival</td>
</tr>
<tr>
<td></td>
<td>- Night-time curfews</td>
</tr>
</tbody>
</table>

On the economic side, the GCC states announced a series of economic measures to stabilize economic activity. Specific examples included a 100 billion Dirham (€27.4 bn) stimulus package announced by the Central Bank of the UAE called Ghadan 21 to support, among other things, small- and medium enterprises (SMEs), to increase loans to the private sector as well as limit stock market volatility.\(^\text{13}\) Qatar announced economic incentives of 75 billion Riyals (€18.8 bn), including measures to shore up the stock market while Bahrain put forward a stimulus package that

\(^{13}\)“Revealed: 15-point economic stimulus package in Abu Dhabi,” *Gulf News*, March 16, 2020,  
amounted to 30% of the country’s GDP.\textsuperscript{14} While Saudi Arabia announced two financial packages to support small and medium sized enterprises and to suspend fees such as VAT collection and import duties, the kingdom also announced a spending cut of 5%, or about €13 billion, to offset the impact of declining oil revenues.\textsuperscript{15} Following the breakdown of a production deal among OPEC+ states in early March aimed at stabilizing oil prices, Saudi Arabia subsequently announced that it would increase its oil production in an effort to gain market share. As a result, the oil price declined dramatically to under $30 a barrel, the largest decline since 2016 and a 60% decrease since the start of 2020. The implications of this decline on GCC and Middle East finances is referred to below.

\begin{table} 
\centering 
\begin{tabular}{|l|p{12cm}|} 
\hline 
\textbf{Bahrain} & Announcement of a €11 billion stimulus package \hline 
\textbf{Kuwait} & Cabinet approved draft law for €1.6 billion for funding of government agencies \hline 
\textbf{Oman} & Oman’s central bank announced €20 billion in extra liquidity to the country’s banking sector \hline 
\textbf{Qatar} & Financial package of €20 billion in incentives and support for the private sector \hline 
\textbf{Saudi Arabia} & Announced one €13 billion and another €18 billion spending package to support the private sector \hline 
\textbf{United Arab Emirates} & The Central Bank launched a €26 billion stimulus package while Abu Dhabi and Dubai launched their own initiatives to cushion the financial impact \hline 
\end{tabular} 
\caption{Overview of main economic announcements taken by the GCC States in response to the Coronavirus Outbreak \hline (Covering announcements made up to March 24 2020)} 
\end{table} 


\textsuperscript{15} Aya Batrawy, “Saudi Arabia to slash spending by 5% as oil prices fall,” Associated Press, March 19, 2020, https://apnews.com/3343c42b853b4830f51842f84f0a73c.
Two other developments are worth noting here. To coordinate their approaches, GCC health ministers held joint meetings to review the situation and to discuss matters such as measures enforced at the point of entry, the preparedness of the health sector, media and awareness initiatives and relevant emergency plans. They also established a joint operations room to better coordinate their regional response.\textsuperscript{16}

Another key regional aspect was the public health cooperation with Iran, whereby the UAE helped to facilitate a shipment of 7.5 tons of medical assistance on March 12, followed by a second shipment of 32 metric tons of medical supplies on March 16, in an effort to extend humanitarian relief on the outbreak of the virus in Iran.\textsuperscript{17} Kuwait and Qatar also provided financial as well as medical assistance. Iran has been one of the hardest hit countries, with more than 58,000 registered infections and over 3,600 deaths as on April 6. Researchers at the Sharif University of Technology in Tehran have estimated that, even if the country imposes a nation-wide strict lockdown, which is unrealistic and therefore unlikely, and if sufficient medical supplies could be imported, a step that is equally questionable given the continuation of US sanctions and the maximum pressure campaign, the death toll inside Iran would exceed 12,000.\textsuperscript{18} While acknowledging the strong commitment in response to the outbreak, Rick Brennan, Director of Emergency Operations at the World Health Organization, suggested that even the current death toll is likely to be five times higher than has been reported.\textsuperscript{19} In that context, there is also an implication for regional security that is discussed below.

**Some Key Implications of the Coronavirus Outbreak for Europe and the GCC**

Despite Europe’s and the GCC States’ quite comprehensive social and economic responses, the COVID-19 outbreak will have widespread implications for all aspects of life, ranging from healthcare, the economy, politics, social life and culture. The precise consequences remain unknown. Adding to the complications in understanding the possible repercussions is the fact that one cannot predict the exact behaviour of the virus in the near future or the impact that current mitigation and suppression strategies will have. On March 19 during a visit to the Pasteur Institute in Paris, French President Emmanuel Macron stated: “What no one is able to say today is how long we’ll have to keep this reduction of social contacts. We don’t know how many waves we’re going to have and how the virus is going to behave and how we will absorb it.”

For Europe and the GCC states there are nevertheless some key areas that can be considered as having specific effects over the coming months and into the second half of 2020. These include the overall economic impact, how the crisis will impact the many unresolved conflicts in the Middle East and the broader impact on the future of international cooperation. For Europe, there are also aspects when it comes to European solidarity and how the outcome of the crisis will structure relations within the EU. Finally, this paper will conclude with a few lessons for the near-term future that can be mentioned at this early stage.


\textsuperscript{19} Tara Kangarloo and Joseph Hinks, “‘People are dying left and right’: Inside Iran’s Struggle to contain its coronavirus outbreak;” Time, March 17, 2020, https://time.com/5804706/iran-coronavirus/. It was further suggested that an estimated 90 percent of the initial 17,000 cases throughout the Middle East in the middle of March were linked to the outbreak in Iran. Jon Gembrell, “Shi’ite Hardliners in Iran Storm 2 Shrines that were closed to stop coronavirus spread,” Associated Press, March 17, 2020, https://time.com/5804546/iran-shiite-storm-coronavirus/.
a. Economic Implications

While COVID-19 started as a global health crisis, it quickly developed into a global economic and trade crisis, with significant implications for business, the wider economy and employment. What distinguishes the economic fallout of the COVID-19 aftermath from the 2008 global financial crisis is the current predicament that brings together a supply and demand crunch at the same time, i.e. a breakdown in global supply chains and economic input with a simultaneous collapse of consumer demand, due to the shutting down of economic activity, and the fact that the majority of people find themselves significantly restricted in their movements. In these circumstances, fiscal and monetary measures will prove far less effective than if either the demand or the supply side was still functioning.

Already in February, prior to the widespread virus outbreak in Europe, International Monetary Fund (IMF) Managing Director Kristalina Georgieva called the outbreak the world’s “most pressing uncertainty.” By March 27, she concluded: “It is now clear that we have entered a recession – as bad as or worse than in 2009.” While she indicated that a recovery would occur by 2021, she cautioned that this will only happen “if we succeed in containing the virus – everywhere – and prevent liquidity from becoming a solvency issue.”

A McKinsey report in early March laid out scenarios in terms of options ranging from a Quick Recovery to a Global Pandemic Scenario. In the best case, the result would be a drop in the global GDP by 3.0%, with a significantly higher decline globally occurring in a prolonged scenario. The overall consensus among economists appears to suggest a 5 to 10 percent drop in global GDP in the first quarter of 2020 alone, with a prolonged recessionary period to follow. Similar to the IMF, the European Commission acknowledged this on March 13 when it stated that COVID-19 will “very likely” push the European economy into recession this year and warned that the rebound next year

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will depend on a bold response from member states. In all of these expectations, the economic dislocation as a result of COVID-19 will likely be longer and deeper than currently anticipated.

To be sure, the weakness of the global economy was evident prior to the virus outbreak, suggesting that the current crisis simply accelerated trends that were already present. One indicator of the weakness of the global economy in late 2019 was that the world’s major economies are currently harbouring the highest peacetime debt levels in the past 150 years (See Chart 6).

![Graph 6](image)

 Already existing high debt levels mean there now exist limits to how much additional debt states can take on as they announce spending programmes to stave off economic collapse. This situation has led to growing questions about the tools that governments can continue to bring to the table to respond to the economic fallout, i.e. the level of governmental capacity to address increased weaknesses in the global economy. For example, many countries already experience high debt levels, thus limiting the room for significant stimulus packages to be put into place or to gain access to additional funding in international debt markets at acceptable rates. Italy’s debt, for example, stood at 135% of GDP before recent economic bailout measures were announced.

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25 “Global Debt surges to highest level in peacetime,” Financial Times, September 25, 2019, https://www.ft.com/content/661f5c8a-dec9-11e9-9743-db5a370481bc
In addition, prior to the outbreak of COVID-19 the global economy was under the strain of growing trade protectionism, trade disputes among major trading partners, falling commodity and energy prices and the uncertainties surrounding the exit of the United Kingdom from the European Union and its corresponding economic fallout. These issues have not disappeared as a result of the current situation - in some cases they have intensified, in others the consequences may have been delayed or postponed, with uncertainty increasing their potential costs. Much of the volatility seen in global financial markets throughout the month of March is in fact compounded by the fact that there is no clear sense at this stage as to how prolonged and how deep the economic impact may be.

The general agreement among analysts is that no matter how much money is injected into the financial system, how close interest rates are to zero or how strong the rescue packages such as those by the European Central Bank prove to be, the economic cycle will significantly spiral downwards. While the EU has vowed to respond with all means necessary, including considering a ‘Marshall-type Plan’ that will provide the support to those European states most desperately in need, it remains questionable whether the necessary fiscal effort can be put forward at the wider European continent level. EU Council President Charles Michel has said that EU leaders will consider a Marshall-type Plan, underlining that the EU “must be active very soon.” This was in response to Spanish Prime Minister Pedro Sanchez who had called for an EU-wide plan to revitalize Europe’s economy. At the same time, counter arguments suggested that those economic policy responses cannot come at the cost of long-term debt and resulting paralysis. It is an issue the European Union will have to confront.

In terms of its policy agenda, what is already emerging is that for Europe priorities will shift. One direct result will be an immediate reshuffling of priorities, with issues like the New Green Deal, a wide-ranging Digitisation Strategy and multilateral trade arrangements being pushed back to accommodate the urgent need to provide for an economic recovery. An EU-China investment protection agreement has already been postponed, as will the Conference for the Future of Europe that is intended to outline the reform programme for Europe going forward. There is the possibility that Brexit negotiations could be extended into 2021, given that talks over the future relationship have been pushed back and therefore in all likelihood cannot be concluded on time. In terms of the GCC states, discussions about re-starting Free Trade Area negotiations, on hold since 2008, will probably also be relegated to another time. In all of this, the bottom line is that the overwhelming emphasis, as COVID-19 infections rates begin to stabilize and as health systems recover, will be on re-starting economic activity and protecting the Eurozone.

With the GCC being highly interconnected, especially as far as key economic sectors such as aviation, energy, logistics, trade and tourism are concerned, the economic impact of the coronavirus will undoubtedly also be felt to a significant degree in this part of the world. Particular economic areas that will be affected include the energy sector, tourism and public finances.

In the energy sector the coronavirus has been accompanied by an unprecedented crisis in world energy markets. While the shutting down of economic activity in China immediately led to a significant drop in oil demand from Asian nations, a key motor for Gulf oil demand in recent years, the decision by Saudi Arabia to abandon price controls and instead to pursue market share by

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27 The issue was further complicated by the fact that EU chief negotiator Michel Barnier tested positive for the coronavirus on March 19.
increasing its own oil production significantly is set to prolong and even exacerbate the accompanying oil slump that had defined markets for the past 4 years. Industry analysts predict a 15% drop in oil demand in the first half of 2020.28

Oil is one of the principal export products of Gulf Cooperation Council countries; the result of the oil price decline is therefore immediately felt and more-or-less reflected within a short period in state budgets. By March 20, oil had lost more than 40% of its value since the beginning of the year, closing at under $30 a barrel of oil. While S&P Global Ratings revised its price forecast for the year from $60 to $40 a barrel, a figure that is below the fiscal breakeven oil prices for all Middle East and North African oil producers according to IMF data, Goldman Sachs suggested that $20 a barrel was more likely.29 There were even predictions of the oil price crashing to single digits.30 Considering the destinations of GCC oil are in the east, the outlook is one of concern. In the case of Oman, for example, 53% of exports go to countries where cases of COVID-19 are either high or spiking.

The anticipated loss of income led Saudi Arabia to announce a spending cut of 5% of its 2020 budget, with further steeper cuts likely. Oman announced a review of its budget every 3 months while Bahrain began discussions about a possible $1 billion loan to meet higher budget outlays.31 Bahrain’s public debt is already nearly 100 percent of its annual economic output. Budget cuts will not only impact government spending in the near-term but will also lead to delays in project implementation and diversification efforts. An immediate result could be delays to mega-project such as the $500 billion Neom project in Saudi Arabia or the $86 billion Silk City project in Kuwait.

Then there are medium- to longer term issues to consider. The COVID-19 pandemic is likely to bring forward peak oil consumption as shorter supply chains are implemented, as people emerge more conscious of their travel habits and as more teleworking and virtual businesses begin to re-shape the labour markets. As the energy analyst Robin Mills highlighted: “... oil-exporting states with little diversification, fragile finances and political strife face a tough future. Upheavals, even collapses, are not inevitable or necessarily immediate, but are impending.”32 In the GCC, Bahrain and Oman will be impacted first while Saudi Arabia will probably need to make significant adjustments to its Vision 2030 economic diversification undertaking.

In addition to revenue losses from oil sales, the GCC states will incur other significant income declines in sectors associated with the diversification of their economies. In the tourism industry, the World Travel and Tourism Council has stated that it expects world travel to shrink by 25% while putting 50 million jobs at risk.33 The UAE in recent years has attracted more than 17 million visitors

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29 Ibid.
annually, while Saudi Arabia receives 20 million tourists every year, most of them for religious purposes. The expansion of tourism has been one of the key aspects of Saudi Arabia’s Vision 2030 programme.

A decline in global travel and tourism levels will have impacts on some of the region’s high-profile events. The UAE’s EXPO 2020, originally scheduled for October 2020 to March 2021, is being delayed by one year. The event was expected to attract as many as 25 million visitors. Even Qatar’s World Cup 2022 could see itself being drawn in, given that international football schedules have already been turned upside down, with the resulting consequences stretching into the medium-term future. By April 1, Saudi Arabia made its first indication that the holding of the annual Hajj pilgrimage season scheduled for the end of July 2020 would not be possible.34

Not including tourism numbers, the general transport sector will have to cope with widespread repercussions as a result of COVID-19. Initial estimates for the global airline industry suggest losses above €100 billion for 2020, while airports in Europe state they could see a decline of revenue of about $4.3 billion due to fewer flights.35 Industry experts estimate that most airlines will be bankrupt by May 2020 under current conditions, as a result of travel restrictions imposed by a growing number of countries.36

In the Middle East, airlines are reported to have incurred revenue losses of $7 billion as of March 12 as many airlines cancelled their flights and restricted their services. The bulk of the losses were sustained by Gulf airlines, with preliminary estimates stating that Saudi Arabia incurred $3 billion and the UAE reporting $2.8 billion in base revenue losses. In addition, there are fears for greater unemployment with 140,000 jobs at risk in Saudi Arabia and 163,000 in the United Arab Emirates.37 The situation could be further intensified as travel restrictions stay in place for a prolonged period. Similar impacts will be felt in the shipping industry as cargo volumes decrease. This will impact all the GCC states, given the importance of ports such as Port Hamed in Qatar, Jebel Ali in the UAE and Duqm in Oman.


The above indications will have an impact on the economic relationship between the EU and the GCC. There will be a close look into the overall strength of the Eurozone and whether Europe has the capacity and the political willingness to survive another economic shock. The effectiveness of any policy tools put into place in Europe will reflect the GCC’s enthusiasm for Europe, both in terms of future investment as well as in promoting overall EU-GCC economic cooperation. Given the focus on immediate needs, some discussions might be delayed although the importance of GCC economic assets for European recovery could also mean a need for closer cooperative efforts.

b. Middle East Conflicts remain unresolved and could worsen

Given their solid financial systems and government structures, the GCC states were quick to respond with widespread policy measures to the coronavirus outbreak. The same is unlikely to be the case in terms of the rest of the Middle East. Here the lack of legitimate leadership, decaying institutional structures and on-going conflicts mean that the impact of the COVID-19 crisis will be significantly higher, as governments throughout the region will find themselves increasingly challenged to provide adequate policy responses. As a result, not only will necessary structural political and economic reforms be prevented from being implemented due to other concerns, but the risks of conflicts increasing and getting worse are also heightened. This includes both continuing conflicts like those in Syria, Yemen and Libya but also the risk of further domestic disturbances in other Middle Eastern states.

Particularly vulnerable countries include Iran, which has seen one of the worst outbreaks worldwide while being subject to stringent international sanctions, Lebanon, which is faced with a $92 billion state debt causing the state to default on its first loan payment in March, and Egypt whose economic and social systems will be overwhelmed if a serious outbreak occurs among the country’s 100+ million population. Other cases include Palestine and in particular the Gaza strip, the most densely populated area in the world; Algeria where economic problems will mount in line with the collapse of the oil price, given that 90% of the country’s income is from oil revenues; and Iraq where the current political paralysis prevails as factions in the parliament cannot agree on a new government and where dependency on oil sales for state revenues is equally high. Lebanon, Iraq and Algeria all witnessed significant domestic conflict in 2019 including widespread demonstrations and protests against their governments. While authorities could clamp down and use COVID-19 restrictions to exert closer control over societies, protests could just as easily erupt in response to the inability of government services to tackle virus outbreaks on a larger scale.
Existing conflict zones like Syria are completely unable to cope with a serious level of infections, especially in the refugee camps. Yemen where 80% of the population already requires humanitarian assistance and 15 million people are faced with possible starvation, has already witnessed a further escalation in violence, thereby exacerbating current conditions. The same goes for Libya. While calls have been issued for cease-fires in these locations in order to focus attention on the coronavirus outbreak, even if such steps were to be implemented, they would provide temporary relief at best and are unlikely to last.

Overall, the situation of refugees worldwide is likely to worsen, especially as humanitarian assistance programmes are scaled back or as reconstruction funds dry up, given that domestic economic considerations could begin to trump any international agenda. With Iran on the verge of seeing its economy collapse, the risk of a direct confrontation between Iran and the United States also grows as Iranian-sponsored groups begin to intensify their attacks on US positions in the region in order to divert attention from domestic issues. This has already occurred in attacks on US bases in Iraq and in Houthis launches of Iranian-supplied missiles on Saudi Arabia. As Iran’s economy approaches its breaking point under both the U.S. maximum pressure campaign and the weight of the coronavirus outbreak, Tehran’s leadership could become more unpredictable. The direct threat to the security of the GCC states therefore increases.

The GCC states will see repercussions if the crisis spreads further into adjoining regions, for example into the Horn of Africa. Here, fragile peace agreements such as those between Ethiopia and Eritrea could be threatened. A recent report by the International Crisis Group has warned that conflicts worldwide could increase as a result of the COVID-19 outbreak. In general, international peace efforts have been hampered due to numerous travel restrictions in place, which has led to fewer face-to-face meetings and has forced parties to engage more remotely.

“Yemen where 80% of the population already requires humanitarian assistance and 15 million people are faced with possible starvation, has already witnessed a further escalation in violence, thereby exacerbating current conditions.”

c. The future of international cooperation is uncertain at best

Outside of its regional dimension, the COVID-19 outbreak has underscored the current collective paralysis of the international community and the inadequacy of the current international order. A key aspect that would result in a negative impact on overall stability is a further breakdown in US-China relations, which will then hinder the ability to conduct conflict management in many parts of the world.

The Chinese position is problematic. While the Chinese eventually responded in an unprecedented way to the coronavirus outbreak and took decisive action to limit its spread, the failure of the Chinese leadership to address the crisis adequately from the outset and to inform the wider international community properly led to the widespread, calamitous conditions worldwide in the first place. In that context, Chinese efforts to whitewash its shortcomings through the delivery of medical supplies into other crisis regions do not provide the necessary confidence that current as well as future crises can be better addressed or even prevented.41

The United States is equally failing to provide the rest of the world with the necessary level of leadership. Far from providing an ambitious, multilateral response, the US has instead placed the blame for the virus on both China and Europe and left allies and the rest of the world basically fend for themselves. None of its European allies, for example, were informed ahead of time of President Trump’s decision about imposing a travel ban from Europe to and from the United States.42 Given its increased isolationism and abandonment of its traditional global role, some have referred to the current crisis as Washington’s “Suez moment.”43 This holds further implications for the future U.S. role in the Gulf region and suggests an ultimate end to the Carter doctrine that has defined U.S. Gulf policy for several decades.

Taking advantage of the vacuum, Beijing has positioned itself, instead of Washington, to show how its response has worked to contain the virus inside China and to offer assistance to other governments. Here, China has begun to portray itself as part of the solution instead of part of the problem. In the meantime, the US has seen its own domestic situation with regard to the

coronavirus increase substantially as the end of March approached. With the virus outbreak in Asia subsiding while America becomes overwhelmed, the shift in terms of international leadership continues eastwards.

Shortcomings at the global level are also reflected regionally. In the Middle East, the Arab League has been mostly silent with no declarations or even exchanges among the leaders in an effort to come up with a coordinated response. There has been very little effort put forward to address the crisis regionally. The only two positive developments worth mentioning include the GCC and the EU. In the GCC, Saudi Arabia took the lead under its G20 presidency to preside over an extraordinary G20 meeting to coordinate the international response to the coronavirus and its associated economic impact. Through its economic stimulus package at the wider European level, the EU proved more responsive than many of its critics gave it credit for. Both the GCC and the EU provided regional responses in a time of need, thereby underscoring the benefits of and the necessity for better regional cooperation.

d. European solidarity under stress test

Given the ever-present dichotomy between decision-making at the national level and that of the European Union, questions have been raised about the level of European solidarity in response to the COVID-19 outbreak. While the EU and ECB present a sense of common action on the economic front, the same cannot be said to have existed, at least initially, in terms of extending aid and sharing resources. Responses by European governments to the pandemic have largely been framed as national responses, with little reference to the situation in Europe as a whole. Thus it was noticed that, during her address to the German public on March 18, Chancellor Angela Merkel did not mention Europe once, preferring to refer to her government’s responses purely in national terms. The overall level of intra-EU unilaterality and a sense of uncooperativeness was reflected by the lack of solidarity experienced in the 2015 migration crisis and in the responses to the Greek debt crisis.

The sense of division within Europe proper is reflected in the discussions over the future economic bailout plan, in particular in the push by southern European states for new financial instruments, including the support for common debt arrangements. While governments like Germany and the Netherlands (or as common reference has it – the dispute between the No-Limits Nine and the Frugals) insist that other mechanisms are available outside so-called corona-bonds, the debate

has underlined the fragility of current European solidarity. Although not an EU member, Serbian President Aleksandar Vucic underlined the widespread impression when he stated on March 15: “European solidarity does not exist. That was a fairy tale on paper.” He subsequently went on to say that the only country that one could rely on is China.

China indeed began to ship medical materials to several European countries, including Italy, the Czech Republic, Greece and Estonia. If the notion continues to gain traction that the EU has not shown sufficient solidarity and help to its member states during the current crisis, the EU’s legitimacy could be severely tested in the near future. In Italy, France and Spain, where there is already frustration and resentment of governments, populist and far-rights sentiments could increase further, threatening current governing coalitions and paving the way for further anti-EU sentiment. Italy in particular has felt that its European partners have failed to come to its assistance, first in the continuing wave of refugees that come to Europe across the Mediterranean and now more recently by not sending much needed medical supplies, as Italy was the first to be severely hit by the coronavirus wave.

In this context, the COVID-19 crisis will strengthen the narratives of national and anti-globalists and lead to the rehabilitation of the nation-state at the cost of regional and international cooperation. Just prior to the current situation, Europe found itself confronted by the possibility of a renewed migration wave, following Turkey’s decision to question the continued validity of the 2016 Turkish-EU refugee pact. With the coronavirus now leading to border closures and other access restrictions, no government in Europe favours opening its borders to further refugee flows.

On a more positive note, some of the initial criticisms have been acknowledged and have led to more coordinated responses. Germany, for example, began to receive virus patients from France and Italy in an effort to relieve the overburdened health systems in both countries. Significant aid deliveries have occurred throughout the EU landscape and the EU as an institution has continued to vow to exert every

effort to ensure the continued success of the European project. In that sense, the crisis could present an opportunity to strengthen European unity. But overall, the responses to the crisis continue to leave many questions about the future of Europe unanswered. A mere muddling through, as has been the case with regard to other crises in the recent past, may no longer be sufficient, in particular because Europe has embarked on an ambitious reform agenda alongside plans to play a more ‘geopolitical’ role.

A few final items for consideration

The above reflects some of the key consequences that will play a role in the public policy debates within the GCC States and Europe, as both sides grapple with the continuing implications of the coronavirus crisis. Many of the issues could escalate or decrease to some degree, depending on the result of current policy responses. The general trends nevertheless are visible. To conclude this paper, a few direct lessons that can already be applied as governments formulate their short- to medium-term responses will be outlined. These items also hold the potential for greater EU-GCC cooperation.

Act early and quickly: Early, decisive and comprehensive action appears imperative if governmental systems do not find themselves overwhelmed by the current crisis. The policies enacted by the GCC States show that steps such as early isolation, widespread testing in order to separate physically those infected, as well as strict enforcement, are significant factors in containing the spread of the virus. This was also highlighted in a more negative sense by the case of Italy, where measures were imposed only in steps and haphazardly at the beginning.50

While governments in Europe and in the GCC states are still in their reactive modes, it is important to already learn some lessons and to try to implement those within the framework of current policy considerations. One is to continue to look at China and see what the impact of the responses is there. From the outset, China provided lessons on how fast the virus could spread and the impact it has on local and regional communities. As China begins to lessen some of its restrictions, one will be able to see what the repercussions are for a renewed outbreak and to what degree the lessening of certain restrictions can be implemented.

A second imperative is to immediately begin the preparations for the second wave which will probably come in the autumn as temperatures sink and as contact increases as a result of lower social restrictions in place. The summer period could be used to reinforce the importance of continued social distancing, maintaining public announcements and the re-stocking of critical supplies. The general state of the health systems should be analysed and, if needed, re-evaluated. In addition, one should be cautious of trying to return to ‘business as usual’ too quickly.51 The dangers of a renewed cycle of outbreaks and its associated costs could be higher than continued vigilance and maintaining some restrictions, even on the economic front, as we are currently seeing unfold in Tokyo and Hong Kong.52

51 Paola Tamma and Jakob Hanke Vela, “Locked-down Europe: How long can we afford this?”, Politico, March 23, 2020, https://www.politico.eu/article/locked-down-europe-how-long-can-afford-this/?utm_source=POLITICO.EU&utm_campaign=5491a6fcdb-EMAIL_CAMPAIGN_2020_03_24_06_02&utm_medium=email&utm_term=0_10959edeb5-5491a6fcdb-190444213
As one grapples with the current environment and prepares for what is potentially to come, Europe and the GCC could explore the framework for a common agenda in particular as far as health issues are concerned.

Think local and regional cooperation: The OECD notes that production declines in China have spill-over effects around the world, given China’s role in producing computers, electronics, pharmaceuticals and transport equipment, etc. The longer the crisis lasts and the longer the obstacles to the free flow of people, goods, and capital are in place, the more the movement towards self-sufficiency and away from globalisation could take hold. Disruptions in the movements of goods and people are reportedly causing some companies to reassess how international they want their supply chains to be. According to some estimates, nearly every member of the Fortune 1000 is being affected by disruptions in production in China. French President Macron on March 19 underlined this sentiment when he stated that: “we are living through a profoundly new period, that forces us to ask ourselves questions we haven’t asked ourselves like supply and production chains.”

Within this context, European and GCC government should focus on restructuring their economic policies. This could include considerations to place greater emphasis on advancing local supply chains and to shift their economic policies from an efficiency-driven policy to one that focuses on resilience and sustainability. While globalisation will not disappear or be discontinued as a result of the implications of COVID-19, economic and social patterns will undergo a transition to more regional-based models of cooperation and interdependence. Europe and the GCC are already well positioned in this matter, given that they have functioning regional organisations that they can tap into.

In this context, the coronavirus opens opportunities to promote greater regional interaction. Just like climate change, COVID-19 has underscored that individual responses are insufficient in dealing with the repercussions of such a global pandemic. But the outbreak has also exposed shortcomings in international cooperation that will not be easily overcome. In that context, local and regional alternatives should be pursued and enhanced. Discussions over a common agenda to fight future virus outbreaks could be one step taken. This could include considerations of a centralised system to respond to health emergencies. Better coordination and cooperation on food security could be another discussion, especially in the Gulf region where the dependency on food security is very high. The future outlook for EU-GCC economic cooperation, in particular in areas like trade and investment, is vital as both sides find themselves challenged to respond to a new economic environment.

On all these fronts, the EU-GCC framework is one option to activate further as a means to promote greater regional cooperation and integration. The provision of medical aid by the UAE to Greece is one example that could be built on further.

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At the start of 2020, almost no one had heard of the coronavirus and its implications were largely dismissed. Only 3 months later, the repercussions are clearer than ever. The next few months in the first half of 2020 will see a continuing escalation of the pandemic with the United States finding itself increasingly impacted and with much of the developing world becoming affected. At this stage, it is unclear how effective the overall responses will be or when a return to some form of normality can be expected. “The crisis of COVID-19 is adding uncertainty to uncertainty, fear upon fear, accelerating a process of anxiety about a world that is moving too fast,” says Dominique Moisi, a French political scientist. In that context, it is certain that the coronavirus impact will be felt for some time to come.

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