Brexit or Bremain: The Impact on EU-GCC Relations

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Today, 23 June 2016, the UK is voting on a referendum to decide whether their country should leave the European Union (EU). While the main reasons for the vote are clearly national matters, the outcome will inevitably have international repercussions—including on the EU's and UK's relations with the wider Middle East and the countries of the Gulf Cooperation Council (GCC). In fact, it already has.

The two areas most impacted will be economic relations – trade and investments – and political and security relations, especially the EU's regional initiatives.

National and international institutions – including the UK Treasury, the US Federal Reserve, the Bank of England, the International Monetary Fund, and the Organisation for Economic Co-operation and Development – have all expressed concerns on the economic repercussions of a Brexit vote, highlighting that it might generate a long period of uncertainty, financial market volatility and a hit to output. The British Pound (GBP) has already experienced a weak performance over the past few years, falling more than 2% against the US Dollar and, in the event of a Brexit vote, the potential for it to further weaken is great.

While the devaluation of the GBP may offer opportunities for GCC investors to purchase UK assets more affordably, it would also affect long-term returns outlook of existing investments. These concerns might weight the most for investors who already hold huge assets in the country—investors from the UAE accounted for more than 20% of buy-to-let property sales in the UK in 2015, while Qatar notably owns property landmarks such as the Shard skyscraper, Harrods department store and Olympic Village stakes in the Canary Wharf financial district, Barclays, Royal Dutch Shell Sainsbury's and the London Stock Exchange. Inevitably, ahead of the vote, GCC investors are holding back from new acquisitions over fears of a property price slump over Brexit and, indeed, Bank of England Governor, Mark Carney, said in April that in the first three months of 2016 overall flows of foreign capital into commercial real estate in Britain stopped altogether. Brexit is a big deal for Gulf investors.

Concerns are also present over the impact on trade, as a Brexit would imply a long and potentially thorny period of adjustment as the UK will need to re-negotiate trade relationships. It is true that GCC investments in the UK are usually made as stand-alone operations rather than as a platform to enter the EU market. The UK would also be motivated to enhance its existing trade deals and maybe even to strike the free trade deals that the EU has been unable to close with the GCC as a bloc. However, inevitably, its position would be weaker in those negotiations.

Finally, significant repercussions would also be felt in the area of political and security relations. A Brexit might definitely crush the EU's ambitions to act as a great, or even regional power in the wider Middle East. The UK has traditionally held significant political capital and maintained a set of alliances on its own, and it would continue to pursue, to a large extent, its national interests in the region, possibly strengthening the relations with Anglophone countries and existing partners, such as the GCC, while undertaking bigger endeavours under the umbrella of coalitions. However, should the economic predictions of international organisations materialise, one can reasonably expect a renewed emphasis on the economic perspective on foreign and security affairs, and a weakened importance of value-based policies. Not only. The competition between European countries and the EU to project power in the region would only be amplified, impacting even more on the efficacy and the ability to develop long-term strategies. Handling the major regional challenges, especially those surrounding the EU's regional initiatives – re: the handling of Iran's come-back in the region – might become more difficult in a scenario of further political fragmentation.

Officials from the Gulf, have voiced their concerns over the perspective of such sudden earthquake in the economic and political heart of Europe. For instance, Sheikh Hamad Bin Jassim Bin Jaber al-Thani, (former) Qatari Prime Minister and investment chief who oversaw much of the Gulf state's UK acquisitions, recently remarked to Reuters that 'In the Middle East we all want to see a strong Europe, and believe that economic integration is key to making it stronger. In fact, we believe the UK should not only be part of the EU but should lead it.'

Unfortunately, it is difficult, if not impossible to lead from outside.