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Did the GCC Make a Difference? Institutional Realities and (Un)intended Consequences

Matteo Legrenzi

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Abstract

Since its inception the GCC has been largely ignored by scholars of international relations. The few who dedicated more than a passing remark to the organization have been quick to point out the fairly clear shortcomings of the regional grouping. Indeed, from an institutional point of view, few of many promises have been fulfilled by the six member states. Much remains to be done both in the political and the economic field. However, I will contend that what was conceived as a pact between rulers evolved into an entity that contributed to transform Gulf politics in several ways.

From the point of view of the rulers the propounding of a separate 'Arabian', as opposed to Arab, identity served to draw a conceptual boundary vis-à-vis the rest of the Arab world. In other words, the appeal to regional identity helped to constitute boundaries of inclusion and exclusion that reinforced the notion of the six GCC countries as status quo states in a region characterized by the activity of a number of revisionist powers. The establishment of the GCC itself had been carefully portrayed by Gulf officials as a step in the direction of Arab unity. Since the Kuwait war, though, Gulf leaders have been far more energetic in their assertion of a separate Gulf identity and in stating their need to find solutions to specific sub-regional problems by looking for support from non-Arab actors. I argue that from the start the establishment of the GCC had been meant as an exercise of 'identity diplomacy'. This is demonstrated by the timing of the founding that allowed the exclusion of Iraq, a country that had previously insisted in being included in any kind of Gulf-wide regional grouping.

Keywords

Regionalism, GCC, Middle East, Integration

We have not yet set up a unified military force that deters enemies and supports friends. We have not reached a common market, nor formulated a unified political position on political crises…objectivity and frankness require us to declare that all that has been achieved is too little and it reminds us of the bigger part that has yet to be accomplished…We are still moving at a slow pace that does not conform with the modern one.

Crown Prince Abdullah of Saudi Arabia, 30 December 2001.

I. Introduction

Since its inception the GCC has been largely ignored by scholars of international relations. The few who dedicated more than a passing remark to the organization have been quick to point out the fairly clear shortcomings of the regional grouping. Indeed, from an institutional point of view, few of many promises have been fulfilled by the six member states. Much remains to be done both in the political and the economic field. However, I will contend that what was conceived as a pact between rulers evolved into an entity that contributed to transform Gulf politics in several ways.

From the point of view of the rulers the propounding of a separate 'Arabian', as opposed to Arab, identity served to draw a conceptual boundary vis-à-vis the rest of the Arab world. In other words, the appeal to regional identity helped to constitute boundaries of inclusion and exclusion that reinforced the notion of the six GCC countries as status quo states in a region characterized by the activity of a number of revisionist powers. The establishment of the GCC itself had been carefully portrayed by Gulf officials as a step in the direction of Arab unity. Since the Kuwait war, though, Gulf leaders have been far more energetic in their assertion of a separate Gulf identity and in stating their need to find solutions to specific sub-regional problems by looking for support from non-Arab actors. I argue that from the start the establishment of the GCC had been meant as an exercise of 'identity diplomacy'. This is demonstrated by the timing of the founding that allowed the exclusion of Iraq, a country that had previously insisted in being included in any kind of Gulf-wide regional grouping.

Subsequently, from the point of view of decision-makers and professionals, the GCC helped to make the Gulf relevant as a category in knowledge systems. This process has facilitated the tendency to generalize about conditions or peoples within the sub-regional boundaries e.g. Gulf business as opposed to Arab business.

Finally, professional syndicates and public intellectuals started to meet on a GCC basis spurning wider pan-Arab fora. Within these fora constitutional and political issues are discussed more freely than in some of the constituent states. Many professionals and public intellectuals saw the GCC as a possible venue through which wider forms of participation could spread to member countries. Whereas I am quite sceptical about this happening (GCC bureaucrats see themselves very much as functionaries of the member states) it is true that the GCC is now seen as a distinct political space and that many Gulf citizens associate it with positive notions of citizenship and participation. This poses a dilemma for the ruling families that like to promote the GCC as a new sub-regional public space but simultaneously are wary of possible criticism emanating from GCC-wide fora.

In the future it will be interesting to examine what is the impact of the inclusion of Yemen in several GCC committees. The inclusion of a non-dynastic regime may seem prima facie a welcome development for the GCC. However, full membership would probably have adverse effects within an organization whose decision-making is now characterized by informal procedures and constant negotiation between like minded officials. More speculatively, it will be interesting to see if a post-Saddam Iraq will renew its efforts to be included in sub-regional groupings such as the GCC.

II. Institutional Realities and (Un)intended Consequences in the Security and Economic Fields

Both in the field of security and in the realm of economic cooperation and integration the objectives of the GCC differ sharply from the actual achievements. Senior officials admit that the series of unfulfilled promises and declaratory announcements damaged the credibility of the organization. It is my contention that the modest achievements in the field of defence integration stem from a realization that it will always prove impossible to achieve security independence vis-à-vis other regional powers. This leads GCC states to utilize arms procurement as a foreign policy tool. The acquisition of a disparate array of military hardware and software prevents interoperability of weapons system, one of the first necessary steps in the direction of defence collaboration and integration.

In the economic sphere the situation is more nuanced. The achievements on the part of the member states in coordinating, let alone integrating their economic policies have been meagre. However, we witness a flourishing of business and professional regionalization. In other words, the vibrancy in the field of transnational economic civil society is not matched by the governments of the member states.

A. Defence Integration: A Real Priority?

In the realm of defence, cooperation and coordination are limited. This in spite of the formation of a token collective rapid deployment force by the name of Peninsula Shield[1] and numerous joint manoeuvres by the armed forces of the six member states. The reasons for this lack of integration are complex. The armed forces of the six member states will always be inherently weak *vis-à-vis* the two regional powers, Iran and Iraq. These states will always lack the necessary manpower. It is no wonder that census statistics are treated with the outmost confidentiality. If they were made public they will probably reveal that the number of foreign workers is even higher than what is believed to be today (over 50% of residents in states such as the UAE and Saudi Arabia slightly less in the other four states). Additionally, it is unlikely that many citizens of these rentier states[2] will rush to enlist in a well disciplined, fully functional modern army.

The prospect of armies fully staffed by mercenaries and without members of the royal families in key positions of responsibility is very sensitive for rulers of the Arabian peninsula. In spite of a long tradition of utilizing foreign personnel for technical posts and, in the case of the UAE, even in fighting positions, Gulf rulers remain wary of the role armies can play in their societies. They are well aware that monarchical regimes in the Arab Middle East have often been toppled by army coups in the last forty years. Additionally, they worry about the presence of large contingents from other Arab countries on their territories. They know that in the past arrangements of this kind have spelled trouble for the hosting countries and, as in the case of the Syrian presence in Lebanon, they have often become a permanent feature on the political scene. Such worries go a long way in explaining why agreements such as the Damascus declaration[3] did not produce the desired results and why GCC rulers prefer the presence of British and American troops to the establishment of a regional peace-keeping force. This in spite of the friction that a non-Muslim military presence on the Arabian peninsula has provoked,

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1 The former Secretary General of the organization Abdullah Bishara acknowledged that the Saudi-based force was ‘symbolic’ in nature. See J. E. Peterson, ‘The GCC and Regional Security,’ in *The Gulf Cooperation Council: Moderation and Stability in an Interdependent World*, ed. John A. Sandvwick (Boulder: Westview Press, 1987), p.197.

2 For the concept of rentier state and rentier society see the excellent contributions by Giacomo Luciani and Hazem Beblawi in Giacomo Luciani, ed., *The Arab State* (Berkeley: University of California Press, 1990).

3 In March 1991 the six GCC nations, Egypt and Syria formulated the 'Damascus Declaration' that announced plans to establish a regional peace-keeping force. A few months later, Egypt and Syria announced the withdrawal from the project citing disagreements over the size of their forces to be stationed by the two states on the Arabian peninsula and the amount of money that they were to receive for such a service. Since then, from time to time, the countries parties to the declaration have reaffirmed the willingness to provide each other with mutual military support if needed but no Egyptian or Syrian contingent has been dispatched to the Gulf let alone a joint force being established.

particularly for the government of Saudi Arabia. GCC leaders clearly pride themselves in ruling the only revolution-free part of Eurasia in the last seventy years. Internal stability is clearly preferred to the prospect of maximizing the fighting capability of the armed forces.

Finally, one area in which integration would make a lot of military sense but is politically unpalatable is arms procurement. The six member states spend on weapons around 37% of the developing world total.[4] However, efforts at standardization, which have been endorsed by the GCC since 1982, have so far yielded meagre results. The US reluctance to make available certain high-technology items sold to Saudi Arabia to smaller GCC states, as well as the fear of coming to rely exclusively on the United States for arms supplies are often cited as reasons by GCC officials.[5] However, the most important reason for the lack of a unified procurements policy remains the six states' diplomatic strategy of involving as many influential countries as possible in support of their defence, including China and Russia. GCC states continue to prefer utilizing arms procurement as a tool of foreign policy, a sort of 'insurance policy' aimed at securing the support of the external powers, chiefly the United States of America, in case of a threat from the two regional powers. Arms procurement complements and integrates a strategy of carefully balanced foreign investments aimed at forging interdependence with external powers. This is in addition to having important domestic purposes in terms of patronage and consensus building. The management of individual arms procurement programs is often assigned to members of the royal families and their key allies. The lucrative commissions derived from these contracts serve as rewards for services rendered to the rulers. Such a strategy, it must be added, proved its worth at the time of the Gulf conflict of 1990-91, and gives GCC rulers a powerful tool in the conduct of both foreign and domestic policies. It is therefore unlikely to be modified anytime soon.

In the sphere of internal security, integration is more advanced. It builds on informal patterns of behaviour predating the establishment of the organization. From the beginning member states cooperated extensively in a field where they perceive to be sharing similar threats and goals. Therefore, GCC states have achieved a good record in coordinating and sometimes unifying the responses of member states to internal threats. This coordination, though, proceeds at a bilateral level. The issue is considered too sensitive to be left to the technocrats of the GCC Secretariat. A good achievement is the linking of the computer systems that trace the presence of expatriates in the six member states. This allows the member states to have a clear idea of the movements of all foreign nationals within the six member states.

In sum, the GCC as an organization has little to offer in the spheres of external and internal security. External security is ultimately guaranteed by a superpower patron, the United States of America. Internal security is too sensitive an issue.[6] The GCC proves useful as a forum for consultation and coordination between decisionmakers of member states but the lack of supranational powers on the part of the Secretariat is felt keenly in the spheres of internal and external security. From a conceptual point of view these are the spheres that are associated most closely with notions of sovereignty. Furthermore, military security is seen as a prerequisite of regime security. It is worth noting that even in the UAE, a working federation, military forces have not been fully integrated and Dubai and Abu Dhabi maintain separate defence establishments. The issue of defence integration remains a very sensitive one in other regions of the world with strong regionalist traditions. It is

4 Anthony H. Cordesman, *U.S. Forces in the Middle East: Resources and Capabilities*, ed. Anthony H. Cordesman, *Csis Middle East Dynamic Net Assessment* (Boulder: Westview Press, 1997), p.6.

5 Amitav Acharya, *The Gulf Cooperation Council and Security: Dilemmas of Dependence 1981-1988* (London: Gulf Centre for Strategic Studies, 1989), p.21.

6 For example, I asked Prince Turki Al-Faisal, who headed Saudi intelligence for more than twenty years and is now ambassador to London, to tell me what were his thoughts about the organization. He replied 'The GCC? You will have to tell me because I do not know anything about it'. He then went on to emphasize how little interaction both his offices had with the organization. Author's interview with Prince Turki Al-Faisal Al-Saud, Oxford, 18 November 2003.

therefore unreasonable to expect too much on this front in the Gulf region, where a difficult equilibrium between the personalization of power and the learning curve of sovereignty still has to be reached.

B. Economic Regionalism and Civic Regionalization

Convergence and integration become altogether more interesting when it comes to economic regionalism and civic regionalization. In this case, the institutional efforts have yielded modest results, and we actually have a situation of burgeoning transnational cooperation in the professional and business fields. It is my contention that we owe this wealth of transnational business and professional activity in part to the establishment of the Gulf Cooperation Council, as well as to previous collaborative experiments among the Arab monarchies of the Gulf. It is appropriate to start by affirming an important distinction between economic regionalism as a *conscious policy* of GCC states to co-ordinate and integrate their economic policies and economic, professional and civic regionalization as the *outcome* of such policies or of 'natural' economic forces.[7] In particular, I contend that while GCC steps to further economic integration fall well short of projected aims, a bright spot is represented by the civic organizations that have decided to organize themselves on a gulf-wide basis. Even more significantly, professional organizations, while still constituted on a national basis, meet regularly at the GCC level. Opportunities to do business at the Gulf level have improved dramatically since the creation of the GCC. The aim of creating 'economic citizenship', in accordance to Article 4 of the GCC Charter, is one of the few goals that have come close to being fully realized. Visa requirements for GCC citizens, were scrapped with effect from 1 March 1983. Around the same time the ownership rules for companies have been relaxed for GCC citizens well in advance of WTO requirements. This is the case even in Saudi Arabia, the most shielded of the six economies. It can therefore be said that the fact that professional organizations closely coordinate and meet on a Gulf basis is partially the result of GCC policies. It is a lot easier today for professionals and businessmen, who are citizens of member states, to move around and do business within the GCC.

However, even this positive assessment ignores the genuine enthusiasm of professionals and technocrats throughout the Gulf, who often look at the GCC as a tool to nudge their respective national governments in the direction of greater economic and political liberalization. The GCC is often seen by restive American-educated technocrats as a possible vehicle for innovation in business practices and transparency. This expectation may be unrealistic given that GCC bodies do not have supra-national powers and their decisionmaking procedures generally reflect those of the six national governments in their opaque and informal nature. Positive decisions like the ones regarding visas and company laws still have to be implemented by the national bureaucracies of the single states.

Civic enthusiasm for enhanced integration is further testament to the ways that sub-regional bodies are seen as something 'good' in today's world, in spite of the actual achievements of these organizations. In the Gulf context, this means that GCC governments are keen to promote the GCC as a regional body because this highlights their role as positive 'global citizens' that are willing to engage in regional cooperation. It also helps to draw a conceptual boundary between themselves and other states in the region such as Iran or Syria, that are seen on the global stage as 'revisionist' and uncooperative. This exercise in 'identity' diplomacy does not need to be correlated to actual achievements. In fact, when economic and security convergence starts to affect powerful domestic constituencies the process usually stalls. Yet, it would be wrong to dismiss the process as irrelevant. The rhetoric of regionalism and the frequent contacts between decision-makers foster an environment in which regionalization at the level of business and civic society can proceed at an increasingly faster pace.

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7 A modified version of this concept can be found in Andrew Wyatt-Walter, 'Regionalism, Globalization, and World Economic Order,' in *Regionalism in World Politics: Regional Organization and International Order*, ed. Andrew Hurrell and Louise Fawcett (Oxford: Oxford University Press, 1995), p.77. Wyatt-Walter, though, distinguishes solely between conscious economic policies and economic outcomes whereas I am more interested in noting the burgeoning ties between professional organizations and NGOs in the six GCC states.

A further, more daring, instance of the regionalization of civic society in the Gulf is the large number of NGOs that have been organized on a sub-regional basis. This trend started even before the establishment of the GCC. A prominent example is the 'Development Forum' an organization professionals, bureaucrats and academics. These often American-educated technocrats came together in 1979, two years before establishment of the GCC. Initially, members hailed from five of the six GCC countries with the exclusion of Oman. Later, a few Omani members joined, and now the organization has members from all six GCC countries. The membership of around one hundred influential professionals meets once a year for a conference whose proceedings are published as a book. During the first decade of the organization's existence they focused on two major issues that affected their respective countries. These were the issues of economic development and the management of resources. They considered development in the Gulf to be very lopsided and distorted. Therefore, the forum started by considering how best to deal with the management of large public projects, and how to promote a more balanced exploitation of resources.[8] Gradually, members started addressing in their annual symposia more delicate themes such as economic and political liberalization.

Abdulaziz Sultan, an architect who holds a doctorate from Harvard University, is representative of the new breed of Gulf technocrats who resent the lack of transparency and the 'cliquey' nature of regional business practices. They see economic liberalization as a necessary precursor to political liberalization. It is not a coincidence that, in addition to his role as coordinator of the Development Forum, Abdulaziz Sultan serves as the leader of the Kuwait National Democratic movement. He is aware that many economic problems can be tackled only at the regional level. Interestingly, he adds to the usual reasons that are quoted in the literature as hampering GCC economic coordination and integration the fact that GCC economic integration has been hampered by the different levels of democratization that characterize member countries. He sees democratic change and the harmonization of political systems as key issues not only in political terms but even to foster economic integration.

In effect, the issues of economic and political integration cannot be categorically distinguished. On many occasions, steps on the road to economic integration have been held hostage to political disputes. The fact that a wide range of professional organizations, economic officials and NGOs now meet on a GCC basis is a good sign. Thus, best practice is spread around the Gulf, and there is increased space for business deals to take place across the borders of member states. This remains significant despite the lack of progress in economic integration among GCC member states.

III. Measures of Economic Integration

In order to gauge the state of GCC economic cooperation and integration, it is useful to refer to the classic work on the subject by Bela Balassa, which is the analysis that GCC officials themselves use as a reference.[9] Balassa distinguishes five sequential degrees of economic integration:

1) *Free trade area*: suppression of discrimination in the field of commodity movements among member countries. As long as tariffs among non-members are not equalized, customs authorities have to distinguish between partner and foreign products according to the shares of value added for each product.

2) *Customs Union*: complete free trade of commodities within the union and a common tariff wall against non-member countries;

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8 Interview with Abdulaziz Sultan, Chairman Keo Consulting, Kuwait coordinator of the development forum and leader of the national democratic movement, Kuwait city, 13 November, 2000.

9 Bela Balassa, *The Theory of Economic Integration* (London: Allen & Unwin, 1961). For articles by GCC officials utilizing this categorization see Abdullah Yacoub Bishara, 'The Gulf Cooperation Council: Achievements and Challenges,' *American-Arab Affairs* Winter, no. 7 (1983-1984) and Abdullah Ibrahim Al-Kuwaiz, 'Economic Integration of the Cooperation Council of the Arab States of the Gulf: Challenges, Achievements and Future Outlook,' in *The Gulf Cooperation Council: Moderation and Stability in an Interdependent World*, ed. John A. Sandwick (Boulder: Westview Press, 1987) in addition to various issues of *Al-Taawun* [Cooperation,] the journal of the GCC General Secretariat.

3) *Common Market*: customs union and abolition of restrictions on factor movements and services. Non-nationals, such as foreign workers, are excluded from free movement. This is a crucial proviso for the six GCC countries, where at least 35% of the population and 65% of the workforce is made up of expatriates;[10]

4) *Economic Union*: A common market in which national economic policies are harmonized in order to remove discrimination due to disparities in these policies. This implies a joint industrial policy; and

5) *Complete Economic Integration*: a common market in which economic policies such as monetary, fiscal, social and countercyclical policies are unified, and in which a supra-national authority is set up whose decisions are binding for the member states.

Balassa's classification is meant to apply to all market economies, and it follows closely the blueprint for economic integration adopted by GCC countries. However, it should be noted that joint development efforts, both in the fields of infrastructure and manpower as well as joint policies vis-à-vis expatriate workers are difficult to locate in Balassa's classification. This point is often underscored by GCC officials. They stress how the GCC member states all more or less trade in one line of production. In this context, free trade agreements turn out to be less important than when they are entered into by countries with diversified, sustainable economies. GCC states import virtually all their industrial and consumer goods and a great part of their labour from outside the region.[11] However, this argument is contested by many economic analysts.

Hans Rieger, looking at ASEAN, stresses how complementarity grows in line with international specialization engendered by trade. Therefore, it should be the objective rather than the precondition for trade liberalization.[12] Once protectionism is reduced, there is certainly scope for broader international exchange. Given the pre-existing strengths and weaknesses of the six GCC countries, we can actually design an hypothetical scenario of the different economic activities in which GCC member states could further specialize by extrapolating current trends. Bahrain has always been the pre-eminent financial centre in the Gulf. New transparency requirements imposed by the American 'war on terror' are bound to decrease its competitive advantage vis-à-vis financial centres in Europe and America. This will happen because, as it is the case with Switzerland, the traditional discretion that accompanies financial transactions in Bahrain is bound to come under close scrutiny. However, further GCC economic integration will contribute to maintain its edge over rival banking centres. Bahrain could also benefit from more business for its aluminum production plants and shipyards. Dubai, which has so far been the most successful in diversifying its economy, could further strengthen its commercial sector, as well as its trans-shipping business and hopefully spread its proactive business agenda to the other Emirates. Kuwait represents a centre for the refining industry, as well as a financial centre, particularly since trade with Iraq has been re-established fully and for security reasons it has become the basis for many corporations that do business in that country. Saudi Arabia has an important role to play not only in the downstream manufacturing of petroleum products but also in

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10 Figures are contested and opaque. The best treatment of the subject is Andrzej Kapiszewski, *Nationals and Expatriates : Population and Labour Dilemmas of the Gulf Cooperation Council States* (Reading: Ithaca Press, 2001) but see also Erik R. Peterson, *The Gulf Cooperation Council: Search for Unity in a Dynamic Region* (Boulder: Westview Press, 1988) and Simon Koppers, *Economic Analysis and Evaluation of the Gulf Cooperation Council (Gcc)*, vol. 1783, *European University Studies: Series V Economics and Management* (Frankfurt am Main: Peter Lang, 1995) as well as the statistical reports of individual countries. Bahrain and Qatar have the lowest number of expatriates in the workforce (but still well over 60%) whereas in the UAE, where statistics are considered reliable, over 90% of the workforce is expatriate.

11 Interview with Abdullah Ibrahim Al-Kuwaiz, London, Associate Secretary general for Economic Affairs, 16 November 1998 see also Al-Kuwaiz, 'Economic Integration of the Cooperation Council of the Arab States of the Gulf: Challenges, Achievements and Future Outlook'.

12 Hans Christoph Rieger, 'Basic Issues of Asean Economic Co-Operation,' in *Growth Determinants in East and South-East Asian Economies*, ed. Simon Koppers (Berlin: Duncker and Humblot, 1991), p.229. For a similar line of argument see Koppers, *Economic Analysis and Evaluation of the Gulf Cooperation Council (Gcc)*, pp.74-77.

basic industries such as cement and chemicals. This trend will be more pronounced after the pernicious subsidies to the agricultural sector have been removed, and some results from the much heralded but very slow process of the 'saudization' of the workforce start to be achieved.[13] In this fashion product and process specialization within the GCC could lead to increased intra-industry trade.[14] In general, we can conclude that regional economic integration, when accompanied by other measures to deregulate local economies, would certainly benefit these GCC states.

Before reviewing the achievements of the GCC in the realm of economic integration, it is worth noting that within the GCC Secretariat, the Economic Affairs section, is placed directly below the office of the Secretary General, and is of equal standing with the Political Affairs section.[15] This is meant to underscore the importance of economic integration in the life of the GCC. The central importance of this is invariably mentioned in the final communiqués of the meetings of the Supreme Council of the GCC.[16] It is important to emphasize that, much to the chagrin of the first Associate Secretary General for Economic Affairs, Abdullah Ibrahim Al-Kuwaiz, these departments, like other GCC offices, do not have supranational powers.[17] Therefore, the European Union Commissioners, all departments officials can do is harangue member governments to accelerate the implementation of the various economic agreements. The fact that there is no mechanism for the Secretariat General to enforce the implementation of treaties is one of the many reasons why results in the field of economic integration have been so uneven.

Both the Charter of the GCC and its first Secretary General stress that unity is the 'final objective' in the economic field, a lofty goal indeed.[18] In pursuit of this goal, a number of instruments have been ratified and various decisions have been taken. By far the most significant, and indeed the cornerstone of all subsequent cooperation in the economic sphere, is the Unified Economic Agreement [UEA], which was approved in principle on June 8, 1981, less than three weeks after the adoption of the GCC Charter. It was then formally ratified by the GCC heads of states at their summit in November 1981.[19] Economic cooperation among Gulf states precedes by many years the adoption of the UEA and this instrument was meant also to broaden and rationalize the previous efforts at economic cooperation.

The UEA consists of a preamble and seven chapters, divided into a total of 28 articles.[20] The UEA is a very ambitious document that sets out clear objectives for the GCC in the economic field. It is worth here reviewing some of its main provisions while simultaneously assessing what is the status of their implementation more than twenty years after the signing of the agreement.

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13 For a realistic assessment of the efforts at indigenization of the workforce in the six GCC states see Kapiszewski, *Nationals and Expatriates : Population and Labour Dilemmas of the Gulf Cooperation Council States*, pp.69-87.

14 Koppers, *Economic Analysis and Evaluation of the Gulf Cooperation Council (Gcc)*, p.75.

15 Gulshan Dietl, *Through Two Wars and Beyond: A Study of the Gulf Cooperation Council* (New Delhi: Lancers Books, 1991), p.212.

16 The Economic sector is divided into several departments. 1) Economic and Social planning 2) Industry, electricity, desalinization and technology 3) Research 4) Commerce 5) Public Works, Municipalities and Housing and 6) Petrol and Gas Department.

17 Interview with Abdullah Ibrahim Al-Kuwaiz, London, Associate Secretary general for Economic Affairs, 16 November 1998.

18 Bishara, 'The Gulf Cooperation Council: Achievements and Challenges,' .

19 Emile A. Nakhleh, *The Gulf Cooperation Council: Policies, Problems and Prospects* (New York: Praeger, 1986), p.26.

20 GCC Secretariat, *The Unified Economic Agreement* (Riyadh: GCC Printing Press, 1981). They are
1) Trade Exchange (Articles 1-7)
2) Movement of Capital and Citizens and Exercise of Economic Activities (Articles 8-9)
3) Coordination of Development (Articles 10-13)
4) Technical cooperation (Articles 14-17)
5) Transport and Communication (Articles 18-20)
6) Financial and Monetary Cooperation (Articles 21-23)
7) Closing provisions (Articles 24-28)

A. Free Trade Area

The first three articles prescribe the creation of a free trade area and describe the criteria by which a particular product should be considered of national origin. Article 3 states that for products of national origin to qualify as national products, the value added ensuing from their production in member states shall not be less than 40% of their final value. In addition the share of the member states' citizens in the ownership of the producing plant shall be no less than 51% of the final value. This requirement has created quite a lot of controversy in the past as the demand for a certificate of local origin has been criticized by some business people.[21] In practice, even if a standardized GCC form exists, a GCC committee has to confirm the decision that specific products of a specific firm are duty free within the GCC. Having to obtain a certificate of national origin became one of the countless non-tariff barriers that plague business life in the Gulf.[22] Furthermore, some exemptions, allowed under Article 24 of the UEA on a temporary basis, still persist today and there are some ambiguities with regards to the status of handicrafts and art.[23] More importantly, products of national origin are still favoured vis-à-vis products from other GCC states in government purchases and public contracts even if this is expressly ruled out of the UEA. Given the size of government spending in GCC states this is a significant issue. In spite of all these reservations, the creation of a Free Trade Area beginning in March 1983 is the main achievement of the GCC in the field of economic integration.

B. Customs Union

As a further step, article 4 mandates the creation of a uniform tariff range within five years as a step towards establishing a customs union. A tariff range of between 4% and 20% was established as of 1 September 1983, more than four years earlier than stipulated in the UEA.[24] After this auspicious start, though, finalizing a customs union by agreeing on a single external tariff proved devilishly difficult. Furthermore, the repeated announcements that the establishment of the customs union was imminent did a lot to tarnish the credibility of the GCC in the economic field. Diplomats and EU officials came to mistrust the efficacy of the organization in spite of its achievements in other fields.[25] More than twenty years after the signature of the agreement a customs union is still not completed. The all saga confirms the importance of the lack of enforcements mechanisms on the part of the General Secretariat. This is in stark contrast with the European commission that has direct jurisdiction over issues of free trade and competition within the European Union. The European Union as far back as 1989 announced that the achievement of a GCC customs union would be a precondition for a free trade agreement with the EU. Such an agreement would open European markets to the products of the GCC petrochemical industries, by far the biggest industrial sector in the GCC states. The slow pace in forming a customs union was costly for the six member states.

Finally after years and years of hollow timetables at the December 2001 annual summit, the GCC countries decided to advance the introduction of the internal GCC Customs Union by two years. A formula for a Common External Tariff was also agreed: there were to be a limited number of duty-free items and the majority of products would be subject to a 5 percent duty. The common External Tariff

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21 Nakhleh, The Gulf Cooperation Council: Policies, Problems and Prospects, p.27.

22 For a recent review by the office of the US Trade Representative of the wide array of non-tariff barriers still facing businesses that want to operate within the GCC see: http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/2004_National_Trade_Estimate/2004_NTE_Report/asset_upload_file226_4769.pdf.

23 For a complete list of the teething problems see Koppers, *Economic Analysis and Evaluation of the Gulf Cooperation Council (Gcc)*, pp.99-102 and more recent issue of the *Middle East Economic Digest*.

24 Koppers, *Economic Analysis and Evaluation of the Gulf Cooperation Council (GCC)*, p.103.

25 Interviews conducted with foreign diplomats in Kuwait in 1999 and with EU officials in Bruxelles and South Korea in 2004.

was introduced and was to be fully in effect by January 2003. In a final twist, though, the full implementation was blocked yet again two weeks before the deadline.

Historically, the formation of a customs union has been particularly troublesome for these states. The rulers' relations with local merchants was the mainstay of the shaikhly regimes before the discovery of oil. Customs represented the main source of revenue for them and an important source of patronage. The abolition of the right to set external tariffs is felt not only as a mayor abdication of sovereignty but also as the weakening of the link to an extremely important constituency. One of the main factors behind the delay in establishing a customs union was the disagreement between the UAE, particularly Dubai, and Saudi Arabia on what the tariff level should be on most industrial goods. Saudi Arabia aimed at protecting its highly subsidized infant industries while Dubai did not want to jeopardize its role as an important commercial and trans-shipment hub. Furthermore, another major stumbling block was the difficulty in devising a mechanism to apportion tariff revenues among GCC member states.

The difficulty in reaching a customs union has been a thorn in the side of the GCC for a long time and it has overshadowed the achievements of the organization in other fields. If we refer to Balassa's categorizations, we can see that this is only the second step in a five step sequence leading to full economic integration. Current GCC plans to form a monetary union by 2005 and a single currency by 2010 appear wildly optimistic in view of the track record of the organization. A monetary union would involve abdicating monetary sovereignty to a GCC central bank. It is true that such a move would involve less difficulties than in the case of the European union. The currencies of the member states are stable. Five of the GCC states are closely linked to the dollar whereas the Kuwaiti Dinar is tied to a basket of world currencies. Capital flows are completely liberalized. However, the creation of a GCC central bank still appears premature in an organization whose Secretariat is not entrusted with supranational powers, and where no pooling of sovereignty has taken place.

C. Joint Industrial Projects and Other Economic Initiatives

GCC officials stress the importance of joint development projects to the strategy of economic integration of the organization. Activity in this field is categorized as 'positive' integration and it is often emphasized in order to put a gloss on the difficulties encountered in the process of 'negative' integration, namely the creation of a customs union and a common market. Joint development projects did indeed start in earnest after the founding of the organization. After twenty years from its founding, though, we can discern a clear pattern by which activity in this field soars when oil prices are high and then abates when oil revenues start to dwindle. This is the general trend of economic activity in all of the Gulf and it is not surprising to discern it even in this field. However, it certainly creates many problems in sustaining joint GCC efforts in the economic field.

The *Gulf Investment Corporation* [GIC] is the pre-eminent institution set up in the field of joint development. It was established by the Supreme Council of the GCC Heads of State at its meeting in Doha on 10 November, 1982. The Supreme Council decided on an initial generous capitalization of US$2.8 billion and that it would be based in Kuwait in line with the practice of spreading GCC institutions among the six member states. In later years when oil revenues fell GCC governments began to renege on their commitment and the fully paid up capital was US$2.1 billion. However, at the end of 2002 the GIC can boast total assets in excess of US$5.8 billion and a very respectable return on paid up capital of 12.1%.[26] GIC shares are owned in equal proportion by GCC states and the corporation is controlled by a board of directors consisting of two representatives from each member state.[27] The aims of the organization are the following:

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26 See the Annual Report for 2002 at http://www.gulfinvestmentcorp.com/.

27 For an overview of the funding of the GIC see Khaled Al-Fayez, 'The Gulf Investment Corporation,' *American-Arab Affairs* Winter, no. 11 (1984-85).

1) Lending for industrial, agricultural and fishery activities in the GCC where its comparative advantages lie in the ability to provide long-term finance

2) Undertaking technical and economical feasibility studies and providing project selection or rejection, which is a positive externality to other investors

3) involvement in selected new investment projects either by long term of 20% or more and exerting significant influence (associated companies), or by otherwise simply participating (participations)

4) investing in existing companies, assisting them in expanding and providing them with management and financial expertise

5) cooperation with the GCC Secretariat General in organizing conferences or undertaking research and consulting for the GCC[28]

GIC used to fully own Gulf International Bank [GIB], which was acquired in 1991. As a result of a merger between GIB and Saudi International Bank (SIB), GIC retained ownership of 72.5% of GIB. Subsequently in April 2001, that remaining ownership was sold directly to the six governments that comprise the GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.[29] The divestment followed a decision by the board of directors and the six GCC governments to refocus the GIC on its core missions. However, GIB was well managed by the GIC in the ten years of its ownership.

Even if its missions appear somewhat outdated in an era of privatization and deregulation, the GIC proved to be an efficient organization. Overall, when choosing its investments, it managed to discriminate among projects and to resist political pressure surprisingly well. For example of the 199 projects that the GIC chose for appraisal and evaluation in the first eight years of its existence, only half received a full technical and economic feasibility evaluation and less than 10% were finally accepted.[30] This is a commendably low percentage, given the political pressure that is usually brought to bear on the organization. The organization, while not a giant given the huge size of the Gulf capital markets, performed well and assisted the GCC Secretariat by performing serious, in-depth evaluations. In sum, the GIC is probably one of the best managed projects in the field of GCC economic integration.

Another important specialized agency is the *Gulf Organization for Industrial Consulting* [GOIC], headquartered in Qatar. It was founded in 1976, well before the establishment of the GCC. Its main mission is the identification, evaluation and promotion of joint industrial projects in the member states. In addition, the GOIC studies of the state of industries within the GCC, publishes periodicals and bulletins as well as maintaining a number of useful databases.[31] It also runs a number of training program and symposia. The problem for the GOIC is that, while the quality of the studies and of the personnel is good, there simply is not much scope for joint industrial projects in the Gulf. The fact that its studies are rigorous and serious just underlines that with current cost structures the number of viable industrial joint ventures in the Gulf that would not require huge subsidies remains quite limited.

The same problem has beset another GCC institution, the *Industrial Cooperation Committee* of the ministers of industry of the six member state that first met in October 1981 and whose task is to

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28 Koppers, *Economic Analysis and Evaluation of the Gulf Cooperation Council (Gcc)*, p.160 and GIC reports.

29 See http://www.gulfinvestmentcorp.com/history.htm also for a list of all participated companies.

30 Koppers, Economic Analysis and Evaluation of the Gulf Cooperation Council (Gcc), p.160.

31 For an overview of the organization see http://www.goic.org.qa but for an analysis on the part of one of its former Secretary Generals who does not shy away from examining the difficulties faced by the organization see Abdul Rahman Al-Jafary, 'Investment Opportunities in the Gulf: Manufacturing Industry Joint Venture Opportunities,' (Doha: Second GCC-EU Industrial Conference, 1992).

promote joint industrial projects.[32] In this case the main achievements seem to have been the exchange of information and the furthering of projects that not necessarily involve all six GCC countries. The activity of the committee must be seen in the context of the numerous joint ministerial meetings held at the GCC level. The importance of this constant process of consultation is often discounted by foreign observers. However, these meetings, which involve almost all the ministries, encourage the spreading of best practice and informal policy coordination among member states.

Among the successes of GCC economic integration must be counted the efforts in the area of standardization and metrology. On 10 November 1982 in addition to setting up the GIC the Supreme Council approved the transformation of the existing Saudi Arabia Standards Organization [SASO] into the GCC Specification and Measures Organization [GSMO.] On 10 October 1983 the inaugural board of directors and the organizational structure were established. As in other GCC inter-ministerial organizations the GSMO is governed by a board of directors consisting of the ministers representing the relevant ministries of each of the member states, with a rotating chairmanship. The Secretariat General is represented at GSMO meetings by the Secretary General and the Associate Secretary General for Economic Affairs but crucially the latter two do not have voting rights and the board of directors reports directly to the Ministerial Council.[33] This is another illustration of the lack of supranational powers on the part of GCC officials.

In January 1998 the GSMO reported that since its inception it had approved approximately 1000 unified standards for the GCC countries to date.[34] Furthermore, the GSMO plays a part in the EU-GCC cooperation agreement. The GSMO and the European Commission concluded a Memorandum of Understanding in 1996 covering a Standards Cooperation programme of three years. Subsequently a European expert took up duty in Riyadh and has worked with the GSMO since December 1996 as coordinator of the European side of the programme. It is planned to introduce telecommunications standards into this program of cooperation.[35]

D. Oil Policies

The six GCC states sit on some 46% of proven world oil reserves. More crucially they have a production/reserve ratio of around 90 years.[36]

Article 11 of the UEA affirms that member states shall endeavour to coordinate their policies with regards to all aspects of the oil industry and adopt a common position vis-à-vis the outside world. An energy committee comprising the oil ministers of the member states met 25 times in the first decade of existence of the organization, and oil matters are on the agenda of all meetings of the Supreme Council. However, from an institutional point of view, four out of six GCC states are members of the Organization of Petroleum exporting countries [OPEC] and five out of six, including Bahrain (that does not have oil left), are members of the Organization of Arab Petroleum Exporting Countries [OAPEC]. Oman adheres closely to the policies of these two organizations, without actually being a member.

In light of the existence of these two distinct organizations, the GCC has never served as a forum to coordinate oil policies. Since oil policies are so vital to the life of the member states, this is an area in which any pooling of sovereignty appears unattainable for the foreseeable future. However, there have been some results in the fields of marketing, training of work forces and the need to avoid excessive replication in the refining sector.

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32 For a brief description see R. K. Ramazani, *The Gulf Cooperation Council: Record and Analysis* (Charlottesville: University Press of Virginia, 1988), p.205.

33 Peterson, *The Gulf Cooperation Council: Search for Unity in a Dynamic Region*, pp.152-153.

34 See http://www.ustr.gov/reports/nte/2000/contents.html.

35 See http://www.europarl.eu.int/factsheets/6_3_9_en.htm.

36 See *BP Statistical Review of World Energy 2003* at http://www.bp.com/files/16/bp_stats_history_1611.xls.

IV. Obstacles to Economic Convergence and Integration

In order to understand why the GCC has achieved less than it was envisaged in the UEA we have to start from some general considerations about the political economy and the recent history of the six member states. Gary Sick and other analysts remind us of the economic problems currently facing the GCC states.[37] These include budgetary uncertainties due to the vagaries of the international oil market, dominance of the public sector, unemployment and underemployment among the local population, inadequate revenues to finance the very generous welfare states, lack of transparency in the state budgets. The remedies are similarly well rehearsed and they are quoted in countless reports of the World Bank and the International Monetary fund: reducing government subsidies to the public and private sectors, cutting redundant labour in the civil service, rationalizing non-productive spending and introducing large scale consumption taxes as well as taxes on income of individuals and companies.

However, as Gary Sick ably concludes GCC states face a dilemma. If they maintain the paternalistic statism that served them so well for half a century, they risk a domestic struggle over a dwindling body of resources. If however, they open up the system economically, let alone politically, they risk setting in motion a set of vigorous new institutions that would almost inevitably challenge their ruling style, if not their very legitimacy. This formulation encapsulates the essence of the dilemma. At the domestic level, the cures for the problems are well known and prosaic, but also politically unpopular, so there never seems to be an appropriate moment to take the kind of bold and painful action that is required.[38] This phenomenon is well illustrated by the very slow pace of ‘indigenization’ of the work forces in GCC states.

If this is the situation at the domestic level in most GCC states what has economic integration to offer? As long as important reforms are carried out at a glacial pace at the domestic level it is difficult to see how economic integration could proceed much further. This is particularly true when difficult political choices will have to be made such as a significant pooling of sovereignty or the granting of supranational authority to GCC bodies.

A recent development is the accession to some GCC bodies of Yemen, the big, poorer neighbour to the South. While this could be seen as a welcome development from the point of view of regional integration, it actually represents a further potential stumbling block on the path of economic integration. Yemen is much poorer and its socio-economic structure is very different from current GCC members. The prospect of co-opting it in a meaningful process of economic integration is difficult to imagine. Indeed, if Yemen were to become a full member of the GCC this would send a signal that the organization has abandoned the prospect of meaningful economic integration and in the future it will satisfy itself with presentational gestures that do not require politically sensitive decisions.

The prospect of Iraq joining the organization at some time in the future are even more remote. If democracy were to prevail the government would be dominated by Shi’ah politicians. This would add a further sectarian obstacle to integration in the organization. It is furthermore unlikely that a genuinely democratic Iraq would have an interest in joining an organization of Sunni monarchies. In the best case scenario the relationship between the organization and the new Iraqi regime is more likely to develop in the direction of an association agreement that would ensure a steady flow of financial aid until potential Iraqi oil reserves come on stream. Even in this case, though, it is unlikely that single GCC governments would channel the flow of aid through the organization.

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37 See Gary Sick, ‘The Coming Crisis in the Persian Gulf,’ in *The Persian Gulf at the Millennium : Essays in Politics, Economy, Security, and Religion*, ed. Gary Sick and Lawrence G. Potter (Basingstoke: Macmillan, 1997) but also Kapiszewski, *Nationals and Expatriates : Population and Labour Dilemmas of the Gulf Cooperation Council States* for a detailed analysis of the structural problems of GCC economies.

38 Partial exception being Dubai and Bahrain where the fact that oil has all but run out has forced the authorities to foster a more business friendly environment. This may indeed constitute the pathway to sustainable reform. Also in Oman the percentage of expatriates in the workforce is a little less than in the other GCC states (but still well over 60%).

More fundamentally, the prospect of Yemen and Iraq becoming members of the GCC would shatter the sense of regional awareness that is one of the best achievements of the organization to date. It is therefore advisable to proceed cautiously in this direction. There is much left to be done in deepening integration and coordination among the current members before the accession of new members can be contemplated seriously.

V. Conclusion

There is a growing body of literature centred on the notion that regions, and more specifically regional organizations, are becoming key actors in world politics. The proponents of this view see regions as significant in their own right and not as merely derivative of state or global power. [39] This view takes its cue from the experiences of the European Union, NAFTA and to a lesser extent ASEAN. Scholars of the Middle East are quick to dismiss its relevance when it comes to the region pointing to the obvious institutional shortcomings of even long-established institutions such as the GCC.[40]

My research points to a more nuanced appraisal of the organization. It is certainly true, and it is acknowledged by bureaucrats within the Secretariat, that the failure to implement signed agreements both in security and economic affairs has damaged the credibility of the organization. However, it is important to recognize the growth in *regional awareness* brought about by the activities of the organization in the last twenty years. The profound change in the notion of Arab identity that followed the demise of Pan-Arabism allowed Gulf leaders in 1981 to spurn previously accepted norms of intra-Arab political behaviour by setting up an organization that was explicitly sub-regional in character. The sub-regional setting has been enthusiastically embraced by intellectual and business elites bent on reform. The latter see the sub-regional setting as a discursively 'good' area in which they were free to debate issues of economic, and, to a certain extent political, liberalization to a degree that was difficult in the single member states. For many the GCC was seen as a possible vehicle of 'top down' liberalization.

Even if this has not proven to be the case, the GCC has certainly acquired a well defined role in the cognitive boundaries of politicians and businessmen alike, both within and outside the region. The recent boycotting of the GCC summit in Bahrain by Crown Prince Abdullah of Saudi Arabia proves this point. While it is true that the Bahrain-United States bilateral free trade agreement is likely to further complicate efforts to set up a working customs union, what really irked the Saudi government was the fact that Bahrain had gone it alone, betraying the principles of consultation and coordination that underlie the workings of the GCC. Crown Prince Abdullah was protesting a move that further sets back the day when the GCC will act as a single unit in trade negotiations. Likewise, from an institutional point of view, the eventual attainment of a *khaliji*, particularly in the sphere of external defence, will mark an important step forward in the life of the GCC.

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39 For an exhaustive overview of this strand of literature see Greg Fry 'A 'Coming Age of Regionalism?'' in Greg Fry and Jacinta O'Hagan, *Contending Images of World Politics* (Basingstoke: Macmillan, 2000).

40 See for example the scathing dismissal by one of the foremost historians of the region: Charles Tripp, 'Regional Organizations in the Arab Middle East,' in *Regionalism in World Politics: Regional Organization and International Order*, ed. Andrew Hurrell and Louise Fawcett (New York: Oxford University Press, 1995).

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