CROSSCURRENTS IN THE GULF

Arab, Regional and Global Interests

Edited by

H. RICHARD SINDELAR III and J.E. PETERSON

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The Gulf Cooperation Council: A New Framework for Policy Coordination

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John Duke Anthony

More than six years after its establishment in May 1981, the Gulf Cooperation Council (GCC) — an organization that groups together Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates (UAE), and Oman — continues to develop and pursue its goal of creating an integrated, common market. It is widely acknowledged that in terms of measurable cooperation on region-wide issues of interest and concern to its members, the GCC has already achieved more than the European Economic Community (EEC) did in its first decade.

GCC demonstrates potential for Arab unity

Beyond its political and economic ramifications, the GCC stands as proof that regional accord among Arab countries on a host of developmental, strategic and security issues is possible. Moreover, the experiment thus far demonstrates determination among six Arab governments to assume a steadily increasing measure of responsibility for dealing with a broad range of regional challenges, with the concomitant diminution of the need or pretext for intervention by outside powers. 38

Fundamental to the success of the GCC to date has been the capacity of its leaders to benefit from all the failed past attempts at Arab integration, such as the United Arab Republic, which joined Egypt and Syria (1958-1961), the South Arabian Federation (1959-1967), the Maghreb Permanent Consultative Committee (1964-1971), and the Confederation of Arab Republics (1972-1975). These and other unsuccessful attempts to establish durable instrumentalities in the name of pan-Arabism provided the GCC's founders, to paraphrase Rudyard Kipling, with "no end of a lesson," and one which, collectively, has done them "no end of good." These lessons imply that incremental increases in Gulf integration can be achieved only through a slow, steady, and frequently painstaking process of forging consensus on a series of issue-specific agendas.

BASIS FOR CONSENSUS

As a first step, the collective need for sensitivity to the particular dynamics, sovereignty, and separate national interests of the individual states was agreed to by the members as the *sine qua non* for any successful *modus operandi*. Accordingly, at no point has there been any effort to merge massively or quickly as in Arab integrationist schemes attempted elsewhere. The approach of the GCC's architects, acknowledging the extent of intra-GCC diversity in terms of differing local traditions, resources, and circumstances, essentially has been one of seeking to coordinate the members' policies and positions on issues of importance to the GCC as a whole. Without such flexibility at the outset, it is doubtful whether the GCC would ever have come into being.

Various disparities between and among the members not only exist but, in several cases regarding economic differences and commercial competition, they are especially pronounced. Some of these disparities, such as forms of economic dependence or complementarity, undoubtedly have facilitated the integrative process. Others, rooted in different historical traditions or contemporary circumstances, have slowed the momentum. In this light, it is not surprising to note periodic divergences of viewpoint among the members as, for example, over pricing arrangements for oil and a variety of other export products, including petrochemicals, liquefied gas, fertilizers and aluminum products. Finally, different population bases, education levels, and other factors related to development potential have naturally resulted in different domestic concerns and national priorities.

GCC division exists but doesn't impede unity

The competing, and at times divergent, interests, however, at no point have been so great as to reverse the forward momentum of intra-GCC cohesion. A common language, religion, and culture and many attributes of a shared history have been subtle but strongly influential factors in undergirding a sense of togetherness necessary for a common approach to a range of contemporary challenges and future uncertainties. 39

The compact land mass which defines the GCC — an expanse considerably larger than all of Western Europe — provides for a sense of common identity, much as the similarity of much of the members' history offers a common perspective on the outside world. Indeed, consensus as reflected in the existence of broadly similar viewpoints among the members on the benefits to be gained from addressing a range of common external threats and domestic concerns have served as much as anything else to propel the cooperative process forward.

This commonality of shared interests was recognized by GCC leaders many years ago. Efforts to coordinate positions and pursue mutually beneficial policies in specific trade and security matters pre-date the formation of the GCC. For example, in 1953, eight years before it attained full independence, Kuwait pioneered regional resource-sharing activities by creating the General Board of the South and Arab Gulf to provide cultural, scientific and health services to the nine lower Gulf amirates which, like Kuwait, were then part of the British protected-state system in the Gulf.

More recent examples date from the mid-1970s. For example, in 1976, the United Arab Emirates (UAE), Bahrain, Saudi Arabia, Iraq, Qatar and Kuwait established the United Arab Shipping Company to stabilize intra-regional shipping operations. In the same year, the UAE, Saudi Arabia, Qatar, Kuwait, Oman and Iraq formed the Gulf Ports Authority. In 1979, Bahrain, Kuwait and Saudi Arabia incorporated the Gulf Petrochemical Industries Company in order to establish a petroleum by-products industry, and in 1980, the UAE, Bahrain, Saudi Arabia, Qatar, Kuwait and Iraq agreed to establish an Arabian Gulf University in Bahrain, where students throughout the Arab Gulf states could acquire a broadly similar training in different scientific and professional fields.[1]

Other important joint projects launched prior to the GCC's establishment include the Arab Shipbuilding and Repair Yard (ASRY), Gulf Air, the Gulf News Agency, the Gulf Organization for Industrial Consulting (GOIC), the Gulf Joint Production Institute, the Gulf States Information Documentation Center, the Gulf Radio and Television Training Center, the Gulf Television Corporation, the Regional Project for the Survey and Development of Fisheries Wealth, the Joint Gulf Organization for Marine Meteorology, and the Gulf Postal Union. Although the slow but steady accumulation of these achievements escaped the notice of many Western, especially American, observers at the time, it is clear that these institutional and infrastructural units provided a solid base on which the GCC itself could build.

ENVIRONMENTAL FACTORS

Numerous external factors affected the six countries simultaneously and sufficiently to compel the formal establishment of the GCC.

One was the perceived threat of either Soviet or US military intervention. The 1973 Arab-Israeli war, the following oil embargo and higher petroleum prices, the 1979 revolution in Iran, and then the Soviet invasion and occupation of nearby Afghanistan all intensified superpower rivalry in the region.

In January 1980, President Carter, reacting primarily to the Soviet invasion of Afghanistan a month earlier, announced that the US would apply force, if necessary, in response to any attempt by a foreign power to control the Gulf region. The Soviet Union replied to the new Carter Doctrine with what became known as the Brezhnev Doctrine. The latter called for international respect for the region's sovereignty, as well as independent local control over its natural resources. In addition, it stated that no foreign military bases should be established in the area.

The Gulf leaders, under no illusion as to their capacities for self-defense in the event of a superpower conflict in their midst, were apprehensive about the prospect of Western powers and the Soviet Union trying to further their national interests in the region at the expense of the local states. Many of them voiced their concerns with an African proverb which states, "when two elephants fight, it is rare that one is able to defeat the other. But one thing is certain: the grass underfoot always gets trampled." These concerns crystalized in what would become known as the GCC Doctrine which, in essence, holds that responsibility for stability and security in the region belongs to the states themselves and no one else.[2]

Another factor was Tehran's declared intention to export the Iranian revolution. Soon after Ayatollah Khomeini assumed power, it became clear that his country's militants, far from being content with having overthrown the secular establishment in Iran, were covetously casting their eyes across the Gulf. The militants not only challenged Saudi Arabia's authority as leader of the Islamic world, but proclaimed the governments of virtually every Arab Gulf country to be "corrupt" and "illegitimate." Confronting all of the GCC states in the face of such provocations was a haunting demographic reality. The ubiquitous shortages of labor made them dependent on alien, immigrant workers, including tens of thousands of Iranians — with the concomitant risk of externally-inspired subversion.

A third factor was the absence of another organization comparable to the GCC. Such an organization might have provided a credible alternative, were it to have shown any likelihood of being able or willing to address the concerns of the Gulf States with any degree of effectiveness. However, political divisiveness in the Arab and Islamic worlds at the time was especially pronounced and showed no signs of early abatement. Moreover, the challenges facing the Gulf countries and the Arab world as a whole, ranging from an expansionist Israel and Iranian radicalism to the prospects for superpower intervention, appeared to be on the rise.

In addition to responding to a commonly perceived region-wide threat, the GCC's founders were also inspired by the knowledge that each of the members would be able to enhance various aspects of its national interests through participation in the council. In this regard, the GCC's continuing ability to protect and promote the individual interests of its member states has played an integral role in the success of the organization.

Indeed, the greatly diminished revenue from petroleum beginning in 1983 and thus not present when the GCC began was a subsequent, unanticipated factor in this regard. Beyond reducing the spending power of each state, this factor required a far more careful and creative approach to economic development — and even to savings and investment — than had previously been acknowledged as necessary. On grounds of lessened duplication and increased cost effectiveness alone, it became quickly and abundantly clear that each GCC state stood to benefit greatly, at least potentially, if all agreed to cooperate in their developmental efforts.

ORGANIZATION AND FUNCTIONS

The organizational structure to serve such an ambitious design is rooted in indigenous political values, the Islamic faith, and traditional local skills and approaches. GCC activities emphasize consultation and consensus-building, gradual change, and respect for individual sovereignty and concerns within a context of support for the region's political *status quo*. The GCC is composed of a bureaucratic structure with well-articulated responsibilities and functions. Its charter details the goals and laws of the council and its division into three main bodies: the Supreme Council, the Ministerial Council and the Secretariat-General.[3]

The Supreme Council, the GCC's highest authority, is composed of the heads of the member states. The council's presidency is rotated yearly and each member has one vote. The function of the council is to set the domestic and foreign policies for the GCC and, if necessary, to amend the GCC's charter and internal rules.

At the time of the GCC's founding in Abu Dhabi, a separate Commission for the Settlement of Disputes, attached to the Supreme Council, was envisioned. The commission's functions would have been to seek to settle any disagreement among the member states that could not be resolved within the Ministerial or Supreme Councils. In the course of implementing the charter, however, it was agreed among the heads of state that creation of a separate commission, beyond resulting in costly bureaucratic proliferation, was actually unnecessary inasmuch as the Supreme Council itself, with a broadened mandate, would be able to perform the requisite functions.[4]

Since establishment of the GCC, the heads of state have met for working sessions lasting two or more days at the annual GCC heads of state summits, as well as at the pan-Arab summit conferences at Fez in 1981 and 1982, at the annual summit meetings of the Organization of the Islamic Conference and the bi-annual sessions of the Non-Aligned Movement. No comparable number of other Arab heads of state met to discuss inter-Arab affairs on any other issues with anything near this degree of frequency during the same period.[5]

The GCC's Ministerial Council is composed of the foreign ministers of each member state; its presidency is rotated annually along the same lines as the Supreme Council and the council is convened quarterly. Each country has one vote. Resolutions of substantive matters must be reached by unanimous vote, but procedural issues can be passed by a majority. Beyond implementing the policy decisions of the Supreme Council, the function of the Ministerial Council is to encourage and further member cooperation.

To this end, the members early on delegated Kuwait and the UAE, on behalf of all six countries, to seek an end to the prolonged enmity between member state Oman and neighboring South Yemen. The successful effort, manifested in an accord which the two governments signed in Kuwait in September 1982, was followed by other, less successful attempts to mediate between Iraq and Iran, at war with one another since September 1980. In 1986, another success was registered when Saudi Arabia and Oman helped to mediate between Bahrain and Qatar on a matter of disputed offshore territory.

A majority of the individuals in the Ministerial Council have been members since the GCC began. In late 1987, the council had met for regular, intensive working sessions on more than two dozen separate occasions, in addition to conferring with one another at the seven aforementioned meetings of the heads of state. Placing this observation in its historical context reveals an interesting insight into the internal dynamics of this newest of Arab regional organizations. With the much more highly publicized meetings and officials of the United Nations, the League of Arab States, the Organization of the Islamic Conference, the Non-aligned Movement, and even OPEC and OAPEC as points of reference, it is doubtful whether a group o fany other Arab leaders in this century has set aside as extensive an amount of time to deliberate issues of common concern as have the GCC's foreign ministers during the past six years.

The six council members share a combined experience spanning several decades in practically all of the major developments of the period inside such organizations as the Arab League, OIC, OPEC, OAPEC, and the UN. Their competence includes extensive first-hand familiarity with such questions as regional and national strategies toward such issues as security, technology transfer, human and natural resource development, foreign investments, and relations with both superpowers, as well as Western Europe and literally dozens of other countries in Africa and Asia.[6]

The secretary-general and two assistant secretaries-general are appointed by the Supreme Council. The functions of the Secretariat-General itself include preparing studies related to cooperation and coordination and integrating plans and programs for member states' common action. The secretariat also oversees the administrative and financial regulations of the GCC as a whole.

The secretariat, which is based in Riyadh, is divided into a half-dozen operational units. The most influential include the office of the secretary-general and the offices for economic and political affairs. The organization's secretary-general, former Kuwaiti diplomat 'Abdullah Bishara, was the unanimous choice of the Supreme Council when the GCC was founded. Prior to assuming this position, Bishara served with distinction for ten years as Kuwait's Permanent Representative to the United Nations.

The Office of Economic Affairs deals with a range of activities pertaining to financial, investment and industrial planning in the GCC, including such questions as customs, transportation and communications, oil and other energy-related matters, agriculture and livestock management. The office's primary goal is the furtherance of integration through enhanced coordination among the individual development plans of the member states.

The day-to-day administration of GCC economic affairs during the 1981-1987 period was headed by Assistant Secretary-General Dr. ‘Abdullah El-Kuwaiz, a former deputy minister in Saudi Arabia’s Ministry of Finance and a frequent spokesman on issues of economic importance to the GCC at meetings of the International Monetary Fund, the World Bank, and other agencies.[7] In addition, a coordinator for GCC economic consultations with Western European countries and the United States was appointed in 1985. Ma’mun al-Kurdi, concurrently a career diplomat with ambassadorial rank and the title of deputy assistant secretary for economic affairs in the Saudi Arabian Ministry of Foreign Affairs, holds this position. Ambassador al-Kurdi has headed several high-level GCC delegations engaged in consultations with officials in European capitals and the United States in an effort to forge greater linkages between the GCC and its major economic partners.

Former Omani Ambassador to India Ibrahim Sobhi was the assistant secretary-general for political affairs during the GCC’s first six years. In early 1987, he was succeeded by former Omani consul-general in Geneva, Sayf al-Maskari. The sector which he heads deals with political and strategic matters concerning the member states and is especially involved in efforts to enhance GCC security coordination. This sector is subdivided into individual departments dealing with Arab relations, international affairs, security issues and information. These departments, in concert with a separate military committee headed by Saudi Arabian General Yusuf Madani, study and make policy recommendations for such issues as mutual security and weapons purchases, the Iran-Iraq war, joint training maneuvers, and other international questions bearing on the collective and individual effectiveness of the GCC states in regional and world affairs.

ECONOMIC ISSUES: INTEGRATION, DEVELOPMENT AND TRADE

The GCC, despite its youth and geographic size, already stands as one of the world’s most economically influential organizations. Its members possess nearly half the world"s proven oil reserves, lift the bulk of petroleum produced by OPEC, and are major actors in world trade and international finance. Together they function as a powerful bloc in the World Bank and the IMF, in OPEC and

OAPEC, and in such organizations as the Arab Monetary Fund and the Arab Fund for Social and Economic Development.

In the past two or three decades, the six GCC states have made phenomenal strides in developing their basic infrastructures and public services. With these accomplishments behind them and the GCC in place, there is now at hand an unprecedented vehicle for pursuing more complex future development. The GCC's economic mission is to coordinate and integrate the policies of the six member states toward a common market, with the prospect of an eventual merger into a single economic entity. Within this context, the major goals are to diversify the six economies away from dependence on crude oil exports for national income; to industrialize, both "downstream" in the petroleum sector and into non-oil sectors; and to increase exports and reduce the heavy reliance on imported goods.

The position and role of the GCC in the development planning of the member states is critical to these goals. Consolidation of the local markets is necessary to support import substitution industries, and all the industrial schemes will depend on economic cooperation to avoid wasteful duplication. Opening up foreign markets to GCC industrial exports — a far more difficult task — will necessitate the combined bargaining power of the entire group. GCC-orchestrated joint ventures will benefit from location in the state with the greatest economic rationale for the particular industry, a lack of local competitors, an enlarged local market protected from foreign competition, and assistance in reaching potential consumers overseas.

Blueprint for integration: the Unified Economic Agreement

The power of economic integration is outlined in the 1981 Unified Economic Agreement (UEA), which superseded all previous bilateral and multilateral agreements among the members on economic issues. The UEA calls for intra-GCC freedom of travel for the nationals of each state, freedom of commerce between member states, and the construction of a common economic infrastructure.

Additional provisions of the agreement include elimination of customs duties between GCC states, provided the goods satisfy a criterion of a minimum local value-added content; coordination of import and export policies and regulations; free movement of labor and capital; coordination of oil prices; coordination of industrial activities and standardization of industrial laws; coordination of policies for technology, training and labor affairs; a cooperative approach to land, sea and air transportation policies; and, finally, establishment of a unified investment strategy and the coordination of financial, monetary, and banking policies, including the possibility of introducing a common currency.

As a means of helping to implement the agreement, the GCC's Supreme Council, at the 1982 summit in Bahrain, agreed to establish a $2.1 billion Gulf Investment Fund (GIF) and a companion body to administer the fund, the Gulf Investment Corporation (GIC), based in Kuwait. The six states appropriated the money for economic development and industrialization, and to facilitate joint economic projects among GCC members in agriculture, commerce, mining and general investment.

The first stage of the agreement was implemented in early 1983 when customs duties were rescinded for agricultural produce, animals, industrial products and natural resources of national origin traded among the member states. Owing to Bahrain's much greater dependency on customs revenue than any of the other members and the need to protect several infant industries in Oman from unfair competition, certain exceptions were made. In addition, the transit of goods from one member state to another would be similarly exempted from duties and taxes. In another breakthrough, professionals in medicine, law, accounting, engineering and consulting registered in one GCC country were permitted to practice in the other member states as well.

Another early step to implement the 1981 accord was the tasking of Saudi Arabia's Weights and Measures Organization with responsibility for establishing a uniform system of industrial standards that would apply to the GCC member countries as a whole. In 1983, in a move that underscored the immediate and tangible benefits of cooperation, the GCC also saved its citizens millions of dollars by collectively making bulk purchases of rice at lower prices for the member states. In addition, electricity and telecommunications companies have all moved closer to harmonizing their previously widely disparate prices.

On the other hand, exporters of natural gas have proceeded at a slower and more uncertain pace of price standardization, owing to fluctuations in the international price for petroleum. And the once ambitious goal — one with immense symbolic as well as practical importance — of creating a unified currency throughout the GCC has continued to elude consensus.

When the UEA was announced, its implications instantly became the subject of widely different interpretations by nearly every economic interest group imaginable, both foreign and local. A flood of questions ensued from all corners as to the meaning of the agreement in terms of the cost of imported goods; the impact of development plans in one state on plans underway in another state; the kind of system that would be erected to enforce the agreement and when it would be in place; whether the timetable was realistic; and whether the GCC's more affluent members would be able to take advantage of the less affluent and vice versa.

It soon became evident, however, that the UEA was intended not for immediate implementation but, rather, to serve as the principal regional document for member states' planning from that point forward. The extensive economic turndown in the region occurring subsequent to the UEA, but in no way related to it, made it difficult to realize more of these cooperative objectives than otherwise might have been the case.

In 1983, in the midst of the economic recession, the GCC's industry ministers acknowledged publicly the difficulties they were encountering in implementing a unified industrial policy. In calling nonetheless for unified industrial legislation and an integrated approach to industrial development, they conceded that competing national self-interests were sufficiently real and extensive as to preclude a blanket policy at that stage. Instead, the ministers recommended a strategy that distinguished between medium and large projects. They foresaw no harm in small and medium-size industries of a similar nature operating in their respective states, but desired coordination on major industrial projects. The ministers thus sought to satisfy the economic needs of individual states while at the same time placing a limit on the degree to which any one of them would be permitted to pursue new industrial policies without regard to the impact of such policies on the others.

The GCC secretariat and more than a dozen ministerial-level committees in fact have made substantial progress in allocating specific new GCC-wide industries to member states according to agreed-upon priorities and "relative advantages." Saudi Arabia, for example, should continue to lead on matters pertaining to petrochemicals and wheat, egg, and livestock production, as well as the establishment of industrial standards, and the development of manufacturing strength in general. Qatar is the likely site for a major regional gas-gathering facility, while Kuwait seems certain to retain a pivotal influence in foreign investment and regional economic assistance.

Oman, for obvious reasons, figures heavily in any scheme to bypass the Strait of Hormuz by an oil pipeline with a terminus on the Indian Ocean. Bahrain is mentioned frequently as a site for regional health services, for the treatment of certain diseases, and for various research facilities. The UAE, headquarters of the Arab Monetary Fund and the one GCC country with the greatest expertise in offshore petroleum operations and liquefied natural gas production for export to Europe and Japan, is interested in applied solar energy research and also figures in schemes for intra-GCC pipelines and ship repairing.

Trade policies

While the number of joint industrial projects undertaken thus far remains very limited, there has been progress in coordinating trade policies. A region-wide consensus has been reached that stipulates a tariff range applicable to imports from non-GCC countries. This policy alone has helped to facilitate the long term planning needs of the GCC's regional and global suppliers.

In addition to adopting a common external tariff, the 1981 UEA accelerated movement toward a more comprehensive duty-free trade agreement within the GCC. Following a consensus that basic items should be dealt with first, a new GCC-wide tax was imposed on several imported products, including iron, steel, cement, and food staples, in order to protect local production. Another boost to GCC producers has been a 1982 resolution requiring all government projects in the member states to utilize to the fullest possible extent products manufactured locally.

Another UEA trade feature called for the creation of a "collective negotiating force" to strengthen the GCC's position in dealing with foreign suppliers. Added in late 1985, it focused on institutionalizing negotiations with leading European exporters to the GCC and creating a mechanism for discussing similar economic issues with the United States. In addition to several sessions with leading European economic officials, three rounds of meetings between high-level GCC delegations and their American counterparts have been held: in December 1985 in Riyadh, in May 1986 in Washington, DC, and in February 1987 in Bahrain. Further meetings on a fairly regular basis are anticipated for the remainder of the 1980s.

The purpose of these exchanges and meetings of specialist working groups with the United States, Western Europe and Japan is to place the GCC's economic relationships with its major trading partners on a solid long term footing.

Petroleum: the engine of GCC development

The foregoing clearly indicates that the GCC, within seven years, has made impressive strides toward implementing the 1981 economic agenda. However, as individual members readily admit, far more remains to be accomplished. With most member states dependent on oil for over 90% of their export earnings and government revenues, diversification away from reliance on crude oil exports stands as the most daunting challenge.

Even continued dependence on exporting such a critical commodity as oil has been difficult for the GCC to manage. The success of industrialized countries in launching energy conservation programs and the degree to which some have been able to switch to non-oil alternatives has complicated matters. Some major consumers, particularly the US and Western Europe, have re-oriented the sources of a portion of their oil to suppliers outside the Gulf. Reduced international demand in the mid-1980s due to the recession and the introduction of competition from several new non-OPEC oil producers caused the price of Gulf oil to fall. From 1980 to 1983, GCC oil revenues declined by half: from $145 billion to $72 billion. 50

Gulf oil revs. ↓

The altered economic situation has affected every GCC state. Saudi Arabia's oil exports have dropped by well over 50 percent since 1982. The kingdom's gross domestic product has contracted and government spending has been cut five years in succession. The UAE and Qatar have undergone similar experiences. 50

Saudi oil prod and $ halved big time

Kuwait, Bahrain and Oman, on the other hand, have fared differently. Kuwait has had a cushion in the form of continuing high yields on its extensive overseas investments; Bahrain continues to receive financial largesse from Saudi Arabia and Kuwait; and Oman, not an OPEC member, has been able to pump more oil to offset lower oil prices.

In light of the altered economic circumstances, GCC planners have focused on enhancing the prospects for expanding member states' activities in international oil operations. The breadth of the mandate to increase GCC involvement in the petroleum sector is evident in a resolution passed at the first GCC summit meeting in Abu Dhabi in May 1981. The resolution called for joint cooperation in order to establish an integrated oil industry, including exploration, refining, marketing, industrialization, pricing, transport, utilization of gas and development of energy sources.

Individual GCC states have made impressive gains toward these goals. The efforts of Kuwait, Saudi Arabia and the Amirate of Abu Dhabi to diversify sources of revenue through worldwide financial investments are well known. Kuwait has been especially successful in increasing its international holdings. It penetrated the European market in 1983 when it purchased the facilities of the Gulf Oil Corporation — comprising some 1,600 retail gas stations — in the Benelux countries and Scandinavia. Kuwait also purchased refineries in Rotterdam, Copenhagen, and Milan, two lube-oil plants and eight terminals in Denmark, a 50-percent interest in 30 terminals in Sweden, and 1,500 retail outlets in Italy. It also bought equity in the International Energy Development Corporation, a Geneva-based consortium of companies involved in overseas oil exploration, primarily in less developed countries.[8]

In the United States, Kuwait purchased the Santa Fe Company, an oil service firm with a large inventory of drilling rigs, extensive oil leases in the US, the Gulf of Mexico, and the South China Sea, and holdings in the North Sea. Kuwait also bought an oil and gas exploration firm in Oklahoma, Occidental Petroleum Corporation's geothermal electric plant in California, and two large construction firms. Future Kuwaiti acquisitions are expected to take place in Japan, Taiwan and South Korea.

Industrialization strategies for the future

An important long term step toward economic diversification has been to focus efforts beyond the sale of crude petroleum to the building and maintenance of industries such as petrochemicals, fertilizers, aluminum, iron, steel and cement. Joint economic investment and development plans in these areas, again, pre-date the formation of the GCC. In most instances, they were spearheaded by the Qatar-based Gulf Organization for Industrial Consulting, which acted as an information clearinghouse and undertook feasibility studies for proposed projects.

The move toward elimination of tariff barriers and the concomitant freer flow of products, labor and capital, plus provisions for the establishment of joint ventures, have all helped to accelerate industrialization. Although the GCC's industrial sector at present contributes less than ten percent of the states' total gross national product (GNP), there is widespread agreement that new region-wide industries will develop, to which increasing amounts of new and advanced technology will be transmitted.

Although many outside observers are pessimistic about the GCC's future prospects in this realm, it is significant that in the midst of the recession, the non-oil sector of the economy in some GCC states was the only sector to register economic growth. For example, in Saudi Arabia, growth in the petrochemical sector has exceeded 20 percent annually in recent years, and in Oman, the percentage of the non-oil industrial-related GNP has increased ten-fold from a small base.

The nucleus of the GCC's basic industries in the mid-1980s lies in chemical fertilizers, aluminum rolling, and iron castings. Under free-trade conditions, the GCC possesses all the necessary natural resources and capital to be very competitive in the international market. In chemical fertilizers, which require large amounts of natural gas and sulphur, the GCC holds about 10 percent of the world's known natural gas reserves and exports approximately 4 percent of total world output.

The GCC's holdings in sulphur are so abundant that it is able to export the bulk of its production to countries in Asia and Africa with enough left over to supply the sulphur needs of the entire Arab world. As a result of the petroleum-driven development schemes of the 1970s, every GCC state is involved to some degree in the production of chemical fertilizers. In such important derivative products as ammonia and urea, the GCC produces 35 percent and 51 percent respectively of the overall needs of the Arab region.

Aluminum rolling has also played an important role in the GCC's pursuit of industrial diversification and development. Bahrain pioneered in the production of aluminum in the Gulf. In 1981, in a cooperative move spearheaded by Saudi Arabia to avoid industrial duplication, Saudi Arabia, Bahrain, Kuwait, Iraq, Oman and Qatar established the Bahrain-based Gulf Aluminum Rolling Mill Company (GARMCO). The company is capable of producing 40,000 tons of aluminum sheets annually, an amount sufficient to cover much of the Gulf's domestic demand.

Iron and steel play a similar role in GCC development plans. For several years, the annual consumption of these two commodities by the GCC averaged about five million tons, of which approximately

11 percent is produced locally. Only in the past six years have the GCC states begun in earnest to construct iron and steel plants, although Qatar built a small factory in 1974. In 1983, Saudi Arabia undertook the most ambitious project by constructing a complex with an annual capacity of 800,000 tons of reinforced steel. The consumption of iron and steel is projected to increase to as much as 21 tons per year by the next decade. The GCC anticipates that 30 percent of the expected increase will be met by domestic production.[9]

Industrialization and trade

A major hurdle confronting the GCC's efforts to export its petrochemical products is a range of protectionist measures either already enacted or under active consideration by some Western governments.

The economic arguments behind such measures notwithstanding, there is no denying that such measures, coming at the moment the GCC has reached the "take-off" point in export capacity, have engendered the suspicion that Western countries have gone beyond looking out for their own industrial interests and are determined to keep the Arab world economically dependent on European or American goods, services, and technology. In the face of such impediments, the GCC has signalled its intent to challenge what it considers to be unfair trading policies. Such issues are among those included in the aforementioned Euro-Arab and GCC-US economic dialogues that have become commonplace in the mid-1980s.

The extent to which the GCC would be capable of responding to European or American tariff barriers is illustrated by the following. Trade figures show that GCC imports consist of 42 percent capital goods, 34 percent industrial products, and 12 percent foodstuffs. In the mid-1980s, Europe provided 37 percent of the GCC's commodity requirements, followed by Japan at 17 percent and the United States at 11 percent.[10] This diversity of suppliers permits a certain degree of maneuverability for the GCC member states in the international marketplace.

The diversity also implies the need for GCC suppliers to recognize that, with the Gulf having entered its second stage of development, expectations regarding the nature and overall orientation of the GCC's international trading relations are certain to change. As the GCC states move toward the 1990s, one country that may lose considerably, if it proves unable to adapt successfully to the altered environment in which GCC foreign-trade relations occur, is the United States. The US already has seen its once dominant market position in several fields seriously challenged by European and Japanese firms. The complaint expressed most often by GCC corporate representatives and chamber of commerce officials is that American businesses are not meeting the new economic challenges and the changed circumstances for commercial relations in the Gulf, a complaint not limited to the perennial one of American firms charging too high a price for their goods and services.

From the foregoing, it is clear that Western leaders would be exceptionally short-sighted to dismiss the GCC's economic goals as fantasy or impractical, or to reject without appropriate analysis the rationale behind the organization's industrial priorities and policies.

Despite the continued dominance of oil and oil by-products in the GCC's economy and trade, a fundamental consequence of the successful development schemes of the last decade is the GCC's emergence as a permanent competitor in the international marketplace. The GCC is determined to diversify its economy and, to this end, there is no way to avoid the fact that the expansion of the non-oil sector will hinge largely on exports.

THE SECURITY DIMENSION

Any economic plan necessitates a predictable and stable environment if it is to be a success. Accordingly, despite the original and continuing focus on economic issues, the GCC has had no choice but to turn its attention increasingly to security concerns. These have been exacerbated by the Iran-Iraq conflict, an instance of Iranian-supported subversion in Bahrain in 1981, several cases of Iranian-inspired terrorism in Kuwait since 1983, Iranian bombings of UAE offshore oil platforms in 1986, Iranian-provoked demonstrations and riots during the 1987 *hajj* in Saudi Arabia, and repeated, indiscriminate attacks by Iran on neutral and non-belligerent shipping in the Gulf since 1984 — including even attacks on tankers carrying Iranian oil.

In the face of these and related challenges to the region's governmental *status quo*, the GCC's leadership early on enunciated five principles that continue to guide the security policy of the member states. First, the GCC was established and exists not as a military bloc against any power, but rather as a regional organization seeking nothing more than the welfare, stability and security of its people. Second, collective security binds the GCC together: a hostile act against any single GCC country will be interpreted as an attack against every one of the six member states. Third and fourth, the GCC was established as a defensive measure against the possibility of externally inspired domestic subversion and against foreign, especially superpower, intervention. Fifth, GCC military policy is inseparable from that enshrined in the charter of the League of Arab States, an organization in which each of the GCC countries are also full-fledged members.

In keeping with these principles, joint defense policies are mapped out in meetings between defense ministers, armed forces chiefs of staff, and other senior military personnel. The defense ministers meet at least once yearly but their top aides and specialized technicians meet with considerably greater frequency to implement defense policies, coordinate strategies and prepare recommendations for the ministers.

Typical of the importance of such meetings was the meeting of the GCC chiefs of staff in Riyadh in June 1984. At previous meetings, there had been discussion of coordination among their armed forces and practical means of implementing the resolutions passed by the defense ministers. On this occasion the chiefs of staff evaluated the results of the previous fall's joint "Peninsula Shield" maneuvers in the UAE, discussed the idea of forming a unified military force, and studied ways to protect the GCC's oil exports. It was recognized that improvement of overall GCC security would necessitate progress on the establishment of a joint defense system, the development of a common military infrastructure, and joint policies on arms purchases and joint military maneuvers.[11]

Subsequently, the GCC has moved to implement each of these four prerequisites to collective security. GCC military units, collectively and bilaterally, have conducted a number of exercises in addition to the aforementioned maneuvers in the UAE in 1983. Other bilateral exercises have included Saudi-Kuwaiti air maneuvers in 1983 and 1984, and joint air and naval exercises between UAE and Omani forces in 1984 and 1985, and additional full scale exercises involving units from all six states in Saudi Arabia in September 1984 and in Oman in March 1987.

Separate bilateral maneuvers aimed at facilitating cooperation between and among the member states' respective naval forces took place in the summer of 1987. In addition, the ministers on numerous occasions have discussed the need to forge a more credible deterrent to the maritime escalation of the Iraq-Iran war, which has wreaked havoc on their oil-production and oil-export industries.

Although the establishment of a joint defense strategy has not been officially announced, common sense indicates that contingencies have been worked out to address various potential security threats that confront the GCC. Indeed, the fact that top military personnel meet regularly to discuss how best to implement their public goal of forming a unified — some GCC planners prefer the word "coordinated" — military force suggests that common defense policies have been concluded. The fact that the GCC holds regular joint military exercises and that a combined force with contingents from all six member states has been permanently stationed at Hafr al-Batin in northeastern Saudi Arabia since 1985, is its own evidence that mutual security policies indeed are being implemented.

As defense planners in the North Atlantic Treaty Organization (NATO) and other multinational organizations will immediately acknowledge, achievement of these last two prerequisites for establishing a credible collective security mechanism — a common military infrastructure and a common arms acquisition policy — has proven exceptionally difficult. The elusiveness of this goal to date can be explained by the fact that its attainment and the merging of each member state's security concerns with those of the GCC community as a whole would require each state to relinquish a substantial degree of its national sovereignty and independence. Whether the benchmarks are NATO, the Organization of American States (OAS) or the Association of South East Asian Nations (ASEAN), such actions do not come easily to contemporary nation-states.

Moreover, a common arms acquisition policy would require all six states to purchase their weapons and long-term, follow-on training and support systems from a single source. As a consequence, the GCC would become intimately and critically dependent on one supplier, something which very few, if any, countries outside the Soviet bloc, would be prepared to do. This, to be sure, is only part of the problem. An equally, if not more important, consideration is that such a relationship inevitably would be perceived as a *de facto* alliance and send important — and, undoubtedly, controversial — political messages throughout the Middle East and international community.

Like any other group of countries faced with a comparable security situation, the long-range foreign relations implications of a common arms acquisition policy and development of a common military infrastructure — as well as regionwide awareness of the possible serious consequences of a single mis-step in this most controversial and complicated of all GCC endeavors — have had their own effect on regional defense planning. On balance, such considerations have tended to accentuate differences of viewpoint within the GCC and have slowed the movement toward consensus on matters pertaining to defense and security.

Based on the discussions and deliberations that have taken place thus far, three competing trends toward GCC defense policies, as represented by different member states, can be discerned. More than any other GCC state, Kuwait has resisted attempts by suppliers to commit it to a common arms acquisition policy. In an effort to present an independent, non-aligned foreign policy, Kuwait maintains close diplomatic ties with the United States and the Soviet Union.[12]

Oman, on the other hand, has embraced joint military exercises with foreign forces, primarily the United States and Britain. Various Omani strategists have sought a GCC military policy closely aligned with the West in defense of the Strait of Hormuz. In contrast to the much longer-standing defense relationship between Oman and Great Britain, US-Omani military cooperation arose out of a 1980 agreement that provided the US with limited, conditional access to Omani military facilities in exchange for funds and related assistance to modernize the sultanate's military bases.

Since the agreement was signed, Washington has spent $256 million to lengthen runways at four of the sultanate's air bases, harden concrete aircraft hangars, and install storage tanks capable of holding over a million gallons of jet fuel. Pursuant to the agreement, American transport and tanker aircraft have been permitted routine use of Omani facilities to supply US naval task-force ships in the Indian Ocean, and American P-3 antisubmarine reconnaissance planes have been permitted to operate out of the Masira Island base.

Saudi Arabia seeks a third path somewhere between Kuwait and Oman. In a cautious but persistent approach, the kingdom has aimed at consensus for the view that the GCC should become increasingly self-reliant in as many areas pertaining to defense as possible, while remaining sensible enough to recognize that the record of successful contingency planning in this century, in general, has been rather abysmal. Accordingly, pragmatism alone suggests that various kinds of conflicts could erupt in the future which may require the assistance of outside forces, regardless of the wishes of GCC military planners.

Saudi Arabia's approach, which appears to have the support of Bahrain and Qatar — and Kuwait too, following its 1986 decision to seek US and Soviet naval protection for its oil tankers — may well be the course which GCC defense policy eventually will follow. If so, this would mean that the achievement of a unified arms acquisition policy and the formalities of a collective security pact will come later rather than sooner. It also implies that explicit basing rights for foreign forces or the permanent, large-scale presence of foreign troops in the GCC will continue to be forbidden.

CONCLUSION

It may be instructive to place the GCC's achievements to date in perspective by making some comparisons to the EEC, the principal prism through which most Westerners, often erroneously, have insisted on viewing the GCC. The comparison denotes that the GCC has had no choice but to proceed in a milieu that has been and continues to be vastly different from that of the EEC at the time of its establishment. At the end of World War II, the EEC countries faced economic devastation. The miracle allowing full recovery was the US-financed Marshall Plan. Such circumstances hardly could have been further removed from those confronting the GCC at the time of its inception.

Second, the GCC has moved forward as far as it has without the formal assurance of a great power protective security umbrella, such as that which the American-backed NATO provided for the EEC. Third, the process has occurred among countries which, certainly in the beginning, lacked a stimulus comparable to that present in the case of the European countries — broad economic-resource complementarity and a long-standing history of interstate trade relations in industrial fields, as manifested by the European Coal and Steel Community.

Fourth, the GCC has taken root and registered its achievements at a time and in a place where two far more populous neighbors, Iraq and Iran — each with nearly six times more men under arms than the GCC's combined defense forces — have been warring with one another throughout the GCC's entire existence. The Gulf is only 19 minutes away by plane at its widest point (between Iran and Saudi Arabia) and less than ten minutes at its narrowest point (between Iran and the UAE and Oman). Since 1984, tankers and freighters en route to or coming from GCC states have come under attack regularly.

Viewed in this light, the GCC stands out as the most prominent example of successful Arab regional collaboration in an era which has seen numerous other attempts at such an ideal fail. Its achievements are all the more remarkable when one considers that at the time the council was founded in 1981, many, if not most, observers predicted its speedy demise. Now in its second half-decade of cooperation and progress, it is evident that the GCC has not only contributed significantly to the stability of the region and to the welfare of its people but has been a force of reason and responsibility for the Arab world as a whole.

When Gulf events of recent years, problematic on many fronts, are considered in light of this reality, the result is a cautiously optimistic outlook for the organization and its member states. Such a guardedly upbeat prognosis applies not only to the GCC's hopes for further economic coordination, but also to the prospects for maintaining local security in the absence of a spillover from the Iran-Iraq war. It is certain that the will to do so exists on both fronts and that the impetus to follow the necessary course to achieve these goals is strong.

A wider international consideration of the GCC and appropriate support for it undoubtedly would enhance its chances of success. A successful GCC poses no credible threat to anyone and would do much to enhance the cause of both Gulf and global security. Regardless of its long-term efforts, the GCC in the mid-1980s already can be reckoned as the most unifying and cohesive multinational unit that the modern Arab world has ever attempted.

NOTES

1. As an Arab Gulf state, Iraq participated in many pan-Gulf cooperative activities. But, not being a member of the GCC, it has been excluded from many Gulf organizational developments since 1980.
2. Authors's interviews.
3. For more information on GCC organization, and the text of the charter, see John A. Sandwick, ed., *The Gulf Cooperation Council: Moderation and Stability in an Interdependent World* (Boulder, CO: Westview Press; Washington: American-Arab Affairs Council, 1987).
4. Author's interviews.