U.S.–GCC TRADE AND INVESTMENT RELATIONS

by John Duke Anthony

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Executive Summary

Economic and commercial cooperation between the United States and the six Gulf Cooperation Council (GCC) countries is poised to increase significantly. This growth is due to likely increased U.S. energy investments in the GCC countries, fewer fears about economic cooperation, liberalized GCC trade rules, and a realization that the six GCC countries are becoming one market.

Energy Partnerships Carry Numerous Benefits. Although GCC countries benefited financially by earlier taking control of their energy industries, they fell behind in terms of acquiring skills and maintaining their facilities when international companies looked elsewhere for equity arrangements. Increased U.S. and foreign equity participation in the oil and gas sectors of GCC countries holds several benefits. It will:

- Attract investment capital to the GCC.
- Help market GCC energy exports.
- Provide opportunities for GCC nationals to benefit from advanced education and training.
- Strengthen the GCC member states' deterrence capabilities.

Prospects for Enduring U.S.-GCC Economic Cooperation Have Increased. Increasingly, American corporate leaders and investors view U.S. commercial and economic relationships with the GCC countries in a positive light. The changed climate is the result, in part, of joint U.S-GCC defense efforts, such as helping to bring the Iran-Iraq war to an end and repelling the invasion of Kuwait.

This turnaround in attitude has led several major U.S. corporations to perform consistently well in the GCC economies. As a result, U.S.-GCC trade builds on a solid foundation that yields positive benefits for both the United States and the GCC countries.

- Trade has grown from $9 billion in 1985 to nearly $30 billion today, an increase of more than 300 percent.

- U.S. companies have invested nearly $10 billion in the GCC countries, more than half the investments of the world combined.

- U.S. exports support more than 260,000 U.S. jobs a year.

Revised GCC Trade Rules Are Stimulating Trade. New rules, such as the enforcement of intellectual property rights laws, are causing U.S. and other foreign companies to enter GCC markets. The new rules also are helping protect new technologies developed within GCC countries.

Incentives For Foreign Firms to Invest in the GCC Are Growing. U.S. firms are finding extensive benefits for doing business in the GCC. These include low-cost fuel; GCC government development loan funds; no personal taxation; offshore banking arrangements; and free-trade zones. Looking ahead, one area barely tapped but due for growth is the niche area of recreational and high-end cultural tourism.

Challenges Lie Ahead to Further Economic Cooperation. Despite impressive progress to date, companies express lingering concerns about the pace and extent of commercial and economic reforms. Companies are concerned about bureaucratic hurdles; foreign majority ownership laws; the limited mechanisms of private capital formation; and overly bureaucratic enforcement of new regulations.

Conclusion: Expanded U.S-GCC Trade Is Inevitable, Desirable. As the six GCC countries are seen as one trading market, U.S.-GCC trade will inevitably expand. There is a heightened awareness that the GCC is becoming a regional trade hub in an area of more than one billion people. This reality and the others mentioned will lift the commercial ties between the United States and the GCC countries to ever-higher levels.

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The history of the commercial relationship between the United States and the Gulf Cooperation Council (GCC) is not synonymous with the GCC's inception. Rather, the trade ties predate the GCC's origins by more than a generation. Indeed, American firms exported to the six countries that were not yet GCC member states long before four of them – Bahrain, Kuwait, Qatar, and the United Arab Emirates (former Trucial States) – obtained their independence.

Amity and Commerce: A Long-Term Trade History

From the late 1700s onward, Americans enjoyed commercial exchanges with the Sultanate of Oman and what would become Saudi Arabia. Oman, which sent the first Arab ambassador to the United States in 1840, is also a signatory to one of America's oldest commercial treaties, known as the Roberts Treaty, which was named after the American Consul who negotiated it for the United States. The treaty, signed in 1833, remains valid today.

It was felicitous that the official name of the Roberts Treaty was the Treaty of Amity and Commerce. The formal name underscored two hallmarks – friendship and trade – that have characterized the overall tone and nature of America's involvement in the GCC region from earliest times until the present.

The friendship component has moved steadily towards an ever-broadening awareness of identical and complementary interests between the U.S. and the GCC countries in several areas. Ongoing examples are their joint support for the Middle East peace process, the promotion of regional economic cooperation and integration, and the formation and maintenance of the Allied Coalition that brought the war between Iran and Iraq to an end and reversed Iraq's aggression against Kuwait.

Energy: Coinciding Interests That Benefit Both the GCC and the United States

Oil and gas have been the most dominant components in the trading relationship for more than half a century. They are likely to remain so far into the foreseeable future.

It would be difficult to imagine commercial interests more complementary than the energy relationship between the GCC countries and the United States. Whereas the United States is by far the world's greatest consumer and importer of oil, the GCC countries are by far the world's greatest producers and exporters. At current rates of production, GCC proven petroleum reserves are expected to last until well into the 22nd century.

Along with the GCC's sale and America's purchase of oil, there are concomitant commercial components in the energy relationship that translate annually into billions of dollars for both sides. These include energy research and technology development; oil and gas exploration and production; the construction and operation of fuel storage tanks and marine terminals; reservoir and onshore as well as offshore drilling platform maintenance, pipelines, pumping stations, refineries, shipping, marketing, and management and operations.

In most of these areas, the United States has been the leader since the worldwide use of hydrocarbons for fuel began late in the 19th century, just as the GCC countries, which count for nearly half of the world's petroleum reserves, have been the center pole around which much of the international energy industry has revolved and evolved for the past three decades.

One of the more outstanding features of the fast-paced regional and global economic transformations in the contemporary era is the dynamically changing relationships between the GCC countries and the American, other Western, and Japanese companies involved in their oil and gas industries.

Barely a quarter of a century ago, just prior to the GCC's formation, the centerpiece of the member-states' strategic economic objectives was the quest to secure control over the equity and ownership of their national oil industries.

The process of acquiring incrementally greater equity participation in an industry in which U.S. companies had long been the most prominent international players lasted for most of a decade, from the mid-1970s to the mid-1980s. What is remarkable is that the process took place in an overall atmosphere of harmony and cooperation. At its conclusion, the GCC countries had succeeded in purchasing all or a majority portion of the American and other foreign oil companies' local assets.

With the advantage of hindsight, the member-states' success in achieving control of their oil industries proved to be a mixed blessing.

On one hand, it provided the financial means for the GCC states, in partnership with major American and other international firms, to launch a modernization and development process that, in nature and scope, remains unlike any previously recorded in history. In less than a generation, the process led to a remarkable outcome. It not only transformed the U.S.-GCC relationship, but also the GCC region's economic, commercial, industrial, agricultural, and services infrastructure – and the educational, social, and material well-being of the member-states' citizens. Nothing like it has happened before or since anyplace else.

On the other hand, these gains carried a cost. The ensuing *disinvestments* by the United States and other foreign oil companies had some unforeseen consequences. For example, as the GCC countries gained control of their oil industries, the major international companies felt compelled to look elsewhere for better opportunities regarding equity arrangements. As a result, the GCC countries fell behind in terms of acquiring skills and maintaining their facilities. The member-states' oil company cadres, work force, and energy-related industries became increasingly isolated from the mainstream of technological and management developments occurring within not only United States and other foreign energy circles but the broader international economy as well.

The dynamics of the past few years, however, show signs that this trend is being reversed. American and other international companies are now being encouraged to suggest ways that they, in partnership with the GCC countries, could participate in developing and operating projects within various sectors of the GCC's oil and gas industries, and especially the latter.

There are many reasons for the heightened emphasis on gas in the GCC countries' talks with American and other foreign firms:

(1) the growing international environmental interest in using gas as a cleaner fuel than oil;
(2) the demand for gas as the primary source of energy for much-needed electric power-generating and desalination plants throughout the region; and
(3) the member-states' decision to link their gas grids with a view to (a) lessening the likelihood of future power outages and (b) furthering the industrial component in the economic coordination and integration processes underway among the members' economies.

American firms ARCO, Chevron, Conoco, Exxon-Mobil, Occidental, and Texaco, and BP-Amoco and Royal Dutch Shell, and France's Total and Elf are among the leading "pre-qualified" multinational companies being invited to submit proposals for mutually profitable energy ventures in association with the GCC countries.

The Benefits of Restructuring Participation in the GCC Energy Sector

A combination of forces and factors are driving what stands to be a major restructuring of American and other foreign participation in the GCC member-states' energy sectors. From the perspective of the GCC governments, and no less so for the multinational majors that stand to earn profits in the process, the potential benefits are numerous and compelling.

- GCC countries potentially will benefit from the significant amounts of investment capital that the United States and other foreign companies have indicated they are willing to commit to such ventures.

- Partnerships with major American and other international firms should enhance the marketability of GCC energy exports worldwide.

- Because the new structures are likely to be established as joint commercial ventures, the arrangements will practically guarantee the member-states' access to the United States and other foreign partners' energy technology, in itself an economic benefit of incalculable value.

- Because the envisioned relationships are long-term in nature, they should provide ample opportunities for GCC nationals to benefit from the advanced education, training, and related human resources development available in virtually every aspect of the international energy industry.

- The significantly increased commercial and economic partnership with Americans and others expected to result from such restructuring would likely also help facilitate the member-states' goal of heightening the GCC region's status as one of peace and prosperity. In this regard, the restructuring should at least strengthen the members' deterrence capabilities against foreign adventurists tempted by the GCC region's smaller populations and defense establishments.

A History of Defending Trade for the Benefit of All

Assured production and export of the GCC region's energy resources is of vital importance to all of humanity. The United States, together with other world powers and the GCC countries themselves, has long been aware of the need to help defend the member-states from external attack, sabotage, or intimidation. Washington, London, and Paris have responded quickly to any threat to the GCC countries' national sovereignty, political independence, territorial integrity, and ability to continue to serve as the single most important engine of the world's economies.

In 1987-88 and again in 1990-91 – twice in less than half a decade – the United States, together with other Allied Coalition countries, mobilized and deployed forces in the region. Each time the forces were deployed to defend the GCC members against threats to their trade and commerce by their more populous and heavily armed neighbors, Iran and Iraq.

The first deployment was short and ended with Iran's acceptance in August 1988 of the July 1987 unanimous United Nations Security Council resolution calling for a cease-fire between Iran and Iraq.

The second deployment is still underway. Its aim is to enforce UN Security Council resolutions that imposed commercial and economic sanctions on Iraq for its 1990 aggression against Kuwait and to prevent Baghdad from threatening its GCC and other neighbors again.

The U.S. and GCC task of financial and operational burden sharing to assure the free flow of trade and commerce in the midst and aftermath of these two international conflicts has been neither easy nor inexpensive. Such efforts to prevent war or to maintain peace seldom are. These efforts are complicated by the fact that many Americans and GCC nationals are of the view that (a) in the United States, as well as in the GCC countries, there are other spending priorities, and (b) U.S. and other foreign assessments of external threats to the GCC region's peace and stability are exaggerated and self-serving.

Linking Defense with Commerce – and Commerce with Defense

The issues of commerce, economics, and defense raise three interrelated questions with no satisfactory answers so far.

- What if the views of those who claim the threats to the member-states to be non-existent, minimal, manageable, or exaggerated happen to be wrong, as has happened twice in the past two decades?
- How much more expensive might the cost be in the event current deterrence and defense arrangements were absent and another war were to occur?
- Were armed conflict to recur, given present world financial circumstances, which country or countries would likely be able and willing to assume the multibillion dollar cost of the massive mobilizations and deployments that would likely be required to end it?

Such questions are freighted with risks and uncertainties involving regional peace and stability, trade, investment, technology transfer, and the establishment of joint business ventures. These issues encompass matters that, to American and GCC business leaders and many others, are of no small moment. Moreover, these concerns relate directly to the commercial and economic interests not just of Americans and GCC citizens, but also to their other allies and trading partners.

Looking Forward: The Next Steps

Given the importance of the issues at stake, the United States and the GCC countries will likely continue to consult and cooperate closely and regularly to protect bilateral, multilateral, and international trade interests. It is equally likely that their joint resolve – their staying power – will remain firm. At the end of the day, reality brooks no illusions on matters pertaining to the protection of any country's or group of nations' vital assets and interests.

In international relations, there is the truism that defense systems and equipment not in place – and that are not maintained, operated, and jointly exercised regularly to ensure maximum effectiveness – have never deterred anyone.

Such realities provide context for the fact that most GCC countries are co-signatories to defense cooperation agreements with the United States and other Permanent Members of the UN Security Council. They provide context also for what the agreements make possible: continuous consultation, joint training maneuvers, and the pre-positioning of allied forces' defense equipment. As testimony to the overall credibility and operational success of these agreements, the last aggression against the GCC countries occurred nearly a decade ago.

GCC-US Trade Balance

(In millions of dollars)

	Exports		Imports		Balance of
	Value	% Growth	Value	% Growth	Trade—Value
1993	9,971.5	——	9,832.7	——	+138.8
1994	10,120.6	+1.5	8,638.2	-12.1	+1,482.4
1995	10,378.8	+2.6	10,379.5	+20.2	-0.7
1996	11,599.1	+11.8	12,467.4	+20.3	-868.3
1997	12,608.9	+8.7	12,557.9	+8.7	-949.4
1998	8,864.5	-29.7	15,310.7	+12.9	-6446.2

Average Growth Rate of Exports = -0.85%

Average Growth Rate of Imports = +8.3%

Source: Economic Bulletin vol. 13, General Secretariat of GCC countries
U.S. Census Bureau, Data Dissemination Branch

Americans Increasingly Recognize Commercial and Economic Benefits of U.S.-GCC Relationship

More and more American corporate leaders and investors view the U.S. commercial and economic relationships with the GCC countries in a positive light. Little wonder as to why, for the impact of these relationships on American businesses and individuals is significant and growing. Among other things, they have:

- Made it possible to extend production lines of American products and to lower per-unit costs, thereby enhancing sales, profitability, and employment;

- Augmented significantly federal, state, and local tax revenues, thereby adding strength and resilience to the economy;

- Provided much-needed and often hard-to-come-by funds to spur research and development of new product lines, services, and technology, thereby sharpening further the already robust performance of the industrial and high-tech sectors in the economy;

- Enabled aerospace and defense industries and the development of dual use technologies to remain ahead of the game with regard to manufacturing and providing advanced command, control, communications, and transportation systems and equipment, while generating high-paying jobs for tens of thousands of Americans;

- Helped the United States – by the member-states' investment in profitable U.S. debt instruments – to control inflation, thereby holding interest rates down and lessening the national tax burden; and

- Made, and continue to make, their mark on a much broader American national interest: U.S. commerce with the GCC countries, which regularly generates a surplus on the American account, helps substantially to reduce the overall American trade deficit.

These benefits are substantial and a source of understandable envy among U.S. competitors worldwide. They represent a phenomenal commercial and economic success story that is little known and even less well understood among most Americans.

The Mutual Advantages of Economic Cooperation

In 1985, the U.S.-GCC Economic Dialogue began. It was followed by the U.S.-GCC Business Dialogue, sets of biannual meetings between U.S. and GCC economic and commerce officials and private sector leaders. At the time, U.S.-GCC trade stood at $9 billion. Today, according to U.S. Department of Commerce figures, it is rapidly approaching $30 billion – a 300 percent increase.

U.S. companies have invested nearly $10 billion in the GCC, more than half the investments of the rest of the world combined. World Bank officials estimate that, of the approximately $800 billion in private wealth in the hands of GCC nationals, 60 percent is invested in U.S. corporate portfolios and government bonds and other debt instruments.

The U.S. Department of Commerce estimates that $1 billion of U.S. exports produces and sustains employment for 26,000 Americans. Based on that estimate, U.S. exports to the GCC countries in the second half of the 1990s have supported more than 260,000 jobs per annum and served as the primary source of livelihood year-round for nearly 1.2 million Americans (based on a family of four).

More than 700 U.S.-affiliated companies operate in the GCC states, employing 16,000 Americans who are the direct means of support for more than 50,000 American dependents in the GCC region. Each day, the single largest contingent of American civilians living outside the United States work at Saudi Aramco, the world's largest oil-producing and exporting company. Here again, context and perspective are important: the value of U.S. private sector investments in the GCC economies represents half the world's investment in the GCC region.

These American investments in the member-states' energy, manufacturing, services, and other commercial sectors pay more than dividends: they are critical to the economic growth and standard of living in the United States. Again, context and perspective are essential: the number of U.S.-GCC joint venture businesses exceeds by far those of any other country.

U.S.-GCC Economic and Business Dialogues Marked by Progress

Since the U.S.-GCC Economic and Business Dialogues began, the GCC countries have:

- Rescinded the secondary and tertiary aspects of the boycott of American firms trading with Israel;
- Made it easier than ever before for U.S. business representatives to obtain multiple-entry and multiple-year visas as well as residency permits;
- Established a regional office and mechanism for commercial disputes resolution;
- Enacted and accelerated their enforcement of intellectual property rights legislation;
- Permitted the opening of a regional bureau of the U.S. Patent Office with responsibility for assisting all the GCC countries;
- Altered the previously restricted single-agency relationships between U.S. and other foreign exporters and GCC country importers to permit non-exclusive/non-monopoly/multiple-agency relationships as a means of increasing the inflow of investments into their economies; and

U.S. Direct Investment in the Gulf Cooperation Council

(in millions of U.S. dollars)

	1995	1996	1997	1998
Bahrain	(D)	-138	-186	-139
Kuwait	71	28	-60	(D)
Oman	102	78	83	84
Qatar	499	747	1,085	1,378
Saudi Arabia	2,741	3,476	3,826	4,209
UAE	500	598	567	710
Totals	3,913	4,789	5,315	6,242
World Total (in millions)	699,015	795,195	865,533	980,565
GCC percent:	.56	.60	.61	.64

July 29, 1999
D: Suppressed to avoid data disclosure of individual companies.

Source: U.S. Department of Commerce

- Taken the lead in promoting cross-border banking by enabling the Gulf International Bank (in which the GCC's Gulf Investment Corporation is the majority shareholder) to open branches and provide services in all six of the member-states.

Cumulatively, these measures have had a salutary effect on facilitating and sustaining increased U.S.-GCC trade and investment ties.

The Stubbornness of Facts Lessens Fears about Economic Cooperation

In the late 1970s and early 1980s the U.S. media and political system fostered an unusual degree of hysteria against the GCC countries' growing commercial and economic clout. That hysteria, however, has subsided. Cooler heads have prevailed, and more accurate information has been disseminated among policymakers, decisionmakers, and the general public. The success offers proof of a long-standing adage: facts are stubborn things.

The improved circumstances are also the result of the exceptionally strong spirit of cooperation and unity of purpose experienced by unprecedented numbers of Arab and American airmen, marines, sailors, soldiers, and a broad array of diplomats and other civilians over the past decade and a half.

American and GCC (and other) Arabs cooperated to bring the Iran-Iraq war to an end and, simultaneously, to oust the Soviet Union from Afghanistan. They also cooperated to reverse the aggression against Kuwait and to end the atrocities perpetrated by the Yugoslav Government against the Bosnian and Albanian Muslims and other minorities in the Balkans. These successes are no small feat for two peoples who, less than 20 years earlier, were regularly portrayed in the U.S. media as being at odds with each other.

Moreover, after demonstrating for years what American corporate critics claimed to be the inordinate capacity of the United States to shoot itself in the strategic and financial foot, and a remarkable ability to reload faster than anyone else, Washington has finally eased some of its previous restrictions on the export of certain sensitive technologies to its GCC partners.

The result has permitted the sale of advanced computer systems and equipment designed not only to facilitate oil and gas reservoir modeling and telecommunications and information technology development but also to enhance the member-states' abilities to deter aggression and defend against attack.

Heightened U.S. Effort to Pursue Business Opportunities

The United States also has substantially increased its public profile to aggressively pursue opportunities for American businesses throughout the GCC region. That effort began with the Reagan era, continued through the Bush years, and accelerated rapidly during the Clinton Administration under the leadership of the late Department of Commerce Secretary Ron Brown.

Ownership is another area of major U.S. investor interest in which breakthroughs continue to occur. A decade and a half ago, every GCC country required majority local ownership of investment projects involving foreign capital. These local ownership rules were viewed by many as counterproductive, as an unwarranted disincentive to the goal of encouraging inward investment flows.

In 1999, the situation is vastly different. All six GCC countries have been discussing majority foreign ownership for some time, and new foreign investment regulations in several GCC countries already allow 100 percent foreign ownership in certain economic sectors and in free trade zones that proliferate among member-states.

The Elimination of Barriers Has Increased Trade

To large numbers of American firms, the breakthroughs in enactment and enforcement of intellectual property rights protection laws have been an especially welcomed development. In the absence of such protection, private sector giants such as Microsoft Corporation and Walt Disney, Inc. for a time banned the shipment or sale of their products within the Gulf region.

By removing this thorny issue, the member-states are able to import the computers, software, and information technology they need. The new laws and regulations governing everything from copyrights to trademarks and patents have been particularly beneficial for American consumer products firms that market well-known brand name goods.

GCC adherence to U.S., other foreign, and WTO-compatible standards and guidelines for promoting business-friendly environments in these areas of trade has not been smooth sailing in every case, however. In numerous cases, it has resulted in short-term increases in the prices of certain goods that are no longer pirated.

This is nothing new. Whenever new WTO-compatible standards are put in place, the results are nearly identical everywhere in the world. Even so, local business leaders in the member-states who trade in a broad range of American products acknowledge that the long-term benefits of compliance outweigh any near-term disadvantages.

In addition to serving as a stimulus for greater entry of U.S. and other foreign high-quality product lines in demand locally, the new regulations will help to protect the newly emerging technologies within the GCC states themselves.

More business leaders on all sides – American and GCC, and their partners and counterparts in a great many other countries as well – increasingly recognize the benefits of being part of a global trading system in which the major ground rules are reciprocally respected.

One of the reasons for the continuing annual surplus in the U.S. balance of trade in goods and services with the GCC countries is the strong preference among many GCC consumers for American products. This is especially the case in the fields of information technology, air

U.S. Trade with the Gulf Cooperation Council
1996, 1997, 1998
(In millions of dollars)

	U.S. General Exports			U.S. General Imports		
	1996	1997	1998	1996	1997	1998
Kuwait	1,979	1,394	1,479	1,782	1,998	1,471
Bahrain	295	406	295	124	126	170
Saudi Arabia	7,295	8,451	10,525	9,443	10,135	7,169
Qatar	207	360	354	163	168	237
UAE	2,527	2,606	2,369	537	965	709
Oman	219	342	303	447	261	230

Including Special Category Commodities
Exports—f.a.s.; Imports—c.i.f.

Source: U.S. Department of Commerce

conditioning, automobile and automotive spare parts and equipment, fast-food franchises, hotels, and, increasingly, California-style shopping malls.

Linkages among U.S. Business Attitudes, Policies, and Performance

In the process of the significant increase in the purchase of U.S.-manufactured goods and services, and of the threefold expansion in the value of U.S.-GCC trade overall over the past decade, there has been a major turnaround in the attitudes of American business leaders and government officials dealing with U.S. trade, WTO, and other foreign trade policy issues involving the GCC countries.

As the following illustrations of the past few years indicate, many U.S. multinational firms continue to perform consistently well in the GCC's economies.

- Union Carbide won the management contract for a $1 billion project to expand Kuwait's petrochemical industry.
- Foster-Wheeler Engineering won the management contract for the $1 billion design, engineering, procurement, and construction of Oman's ambitious gas liquefaction plant.
- Mobil was early on and has remained the premier partner in Qatar's multibillion dollar gas development and export scheme.
- CMS Energy recently won an $800 million power-generating project in the UAE.
- Boeing-McDonnell Douglas won a $12 billion contract to expand the civil air fleet of Saudia, the region's largest airline.
- AT&T successfully beat the competition to win a $4 billion contract to upgrade Saudi Arabia's telephone lines and services.
- General Electric was awarded a $1 billion contract to expand Saudi Arabia's electric power-generating capacities.

Medium- and smaller-sized firms are nowadays joining these kinds of U.S. corporations. Whether as subcontractors to larger firms or as competitors for business on their own account, such companies are increasingly keen to capitalize on: the member-states' rapid liberalization of foreign investment and ownership regulations, their world-class industrial infrastructure, their growing appeal as a regional manufacturing and distribution center, and the degree to which many of the GCC trading partners' economies offer a broad range of business opportunities for American and GCC companies – accomplished through joint commercial ventures between U.S. and GCC firms and investors.

Another reason for the significantly improved commercial environment for U.S. and other international firms is the result of the GCC's increasing success in telling the member-states' story to American corporate leaders and investors. The GCC countries have been making major headway in explaining their: (1) commercial and economic reforms that are underway, and (2) the impressive range of financial incentives for foreign investors and companies seeking joint venture partners for either manufacturing or regional services and distribution.

Of late, announcements arrive with increasing frequency of mega-dollar deals between GCC member and American companies in the energy industry, in the development of gas production for meeting electrical power-generating and desalination needs, and in the utilization of gas as a feedstock for industrial and petrochemical manufacturing.

Since the inception of these developments, American multinational firms have been in the forefront of foreign joint venture partners in the mammoth Saudi Arabian Basic Industries Corporation (SABIC). The umbrella grouping for 16 petrochemical companies, SABIC is unique among developing countries' success stories. Its ownership is shared among the Saudi Arabian government, the Kingdom's citizens, and nationals of other GCC countries. SABIC remains the GCC's premier showcase of what commercial partnerships can achieve when the world's cheapest source of energy is combined with advanced industrial technology and superior international marketing techniques and outlets.

Incentives for Foreign Firms to Invest in GCC are Growing

What has attracted AT&T; Boeing-McDonnell Douglas; Booz, Allen, Hamilton; Chevron; Exxon; FMC Corporation; General Dynamics; General Electric; Hughes Aircraft; E.I. Lilly; Lockheed Martin; Lucent; Mobil; Northrop Grumman; Occidental; Parsons Corporation; Philip Morris; Raytheon; SAIC; Sealand; Texaco; TRW; Westinghouse/CBS; and many other prominent U.S. corporations to set up shop and invest in the GCC region? By and large, it was the array of benefits contained in the member-states' business incentive packages.

The incentives and benefits for U.S. and other foreign firms to do business in the GCC countries remain extensive. They include: (1) easy access to the world's lowest-cost fuel; (2) substantial financial assistance from GCC government development loan funds; (3) full repatriation of profits and foreign currency; (4) extended tax holidays; (5) tariff exemptions for capital imports; (6) no personal taxation; (7) free land and cost-free start-up building construction (including electrical, sewage, and water hookups) for foreign investment local joint venture use in specialized industrial zones; (8) offshore banking arrangements; and (9) free-trade zones.

In addition, the more visionary U.S. corporate strategists have opted to position themselves to capitalize on the increasingly unified GCC market of 25 million per capita high-income consumers and the rapidly expanding nexus between this market and other, much larger ones farther afield.

Near-Term Opportunities in Tourism

When American businesses look at the near-term future, there is more than the proliferation of telecommunications, information, and energy technologies and infrastructure expansion and upgrades. There is one barely tapped but burgeoning area of opportunities for niche American investors: recreational and high-end cultural tourism.

The UAE, which in 1998 hosted 1.3 million tourists – a number almost equivalent to the country's population – has taken the lead in this area. Bahrain and Oman are not far behind. Qatar and Saudi Arabia are making significant strides to appeal to tourists. Saudi Arabia last year received *90* different American and other international tour groups who came for educational tourism.

Americans are being drawn to all six GCC countries as novel tourist destinations. Increasing numbers of American tourists to the GCC region are drawn to the low-cost duty-free shopping malls, the chance to rest and relax at an abundance of five-star hotels situated on or near some of the Middle East's finest beaches, and the opportunities for scuba diving, sailing, and other water sports as well as mountain-trekking and desert camping.

There's more, however. U.S. tourists also are attracted to the GCC countries' growing number of world-class museums. Each member-state maintains an expanding network of modern museums and heritage theme parks. These permanent and rotating exhibits display the region's archaeological treasures and evidence of the GCC countries' ongoing involvement in international trade and commerce dating back to thousands of years prior to the discovery of oil. Many of the members' museums administer a broad range of educational programs for the general public and specialized tour groups.

These and other activities provide insight into the member-states' rich culture and heritage as well as knowledge and understanding of Arab and Islamic contributions to world civilization that, beyond being little known by most Americans, are often hard to come by in the United States.

Since the mid-1980s, this writer has taken more than 50 delegations of American university faculty members, students, and business representatives on educational study-visits to two or more GCC countries at a time. Without exception, the participants in these groups have ranked their exposure to the cultural, historical, and artistic wealth contained in the member-states' museums, art galleries, and centers for handicrafts – and the exceptional state-of-the-art interactive techniques for displaying and explaining it – as among the least expected but top highlights of their visit to the region.

Here, too, is where much opportunity for American and other business entrepreneurs resides. Although Europeans are to be credited with having discovered and, in a sense, uncovered this otherwise little known aspect to life, leisure, and learning in Arabia, they do not have a monopoly on the technique or the approach. Of related importance, the regional proliferation of virtually every major U.S. hotel chain catering to business representatives and tourists is its own evidence of yet another sector of GCC commercial promise for American companies and entrepreneurial travel agents and tour directors that has barely begun to be developed.

Challenges To Further Economic Cooperation

Some U.S. companies would consider an even greater infusion of investment into the GCC economies in the short-term. These companies, however, express lingering concerns over the nature, pace, and extent of commercial and economic reforms.

Notwithstanding the impressive degree of progress registered in the areas of activity related to U.S.-GCC trade and investment noted above, more cautious and conservative American commercial strategists cite the following as continuing reasons for reservation in placing their money in the GCC region as opposed to other areas:

- The frequency with which bureaucratic hurdles delay approval of projects that are time-sensitive and that, in other regions, are processed and approved with a minimum of paperwork and other hindrances.

- The limited nature, pace, and extent to which GCC governments have liberalized their laws and other provisions that relate to foreign majority ownership of a commercial undertaking.

- The reluctance of many GCC family-owned manufacturing and banking institutions as well as service and general trading and contracting companies to allow more than the most cursory external scrutiny of their operating and accounting practices – not for reasons owing to sensitivities toward any implied improprieties but, rather, out of deep-seated cultural norms that respect individual needs and rights to privacy.

- The limited number of mechanisms for private capital formation outside the local banking systems. Only three of the member-states' stock exchanges operate public bourses, and the other three buy and sell stocks electronically while limiting – in the case of several stock markets, *excluding* – the purchase of shares by foreigners other than GCC nationals.

- Overly bureaucratic enforcement of new regulations aimed at "nationalization of the work force" that often makes it difficult for investors to bring in needed employees with locally unavailable skills or expertise, thus hampering business office set-up and operations, and making GCC investment locations financially non-competitive with alternative locations.

These are among the reasons most often cited by would-be American investors for their reluctance or refusal to take advantage of what the Doha, Qatar-based Gulf Organization for Industrial Consultancy has indicated are some 60 proposed GCC joint industrial ventures valued in the billions of dollars.

U.S. firms would be expected to compete quite well in several of these undertakings. They involve electric power generation (to meet both industrial and desalination needs), transport (including construction of an eventual pan-GCC railway system), and the linking of gas distribution schemes.

Additionally profitable prospects awaiting U.S. and other foreign private investment are imbedded in the increasing numbers of contracts to be awarded to expand and upgrade social service facilities, especially educational and health care centers. American firms have been competitive in these fields as well.

These kinds of opportunities are not only the result of the GCC governments' lessening the degree of financial underwriting for such ventures while simultaneously encouraging private sector investment in these areas. They are also the result of the policy implications for foreign trade and investment of the region's exceptionally high population growth rates.

In these and numerous other areas of present and forthcoming commercial opportunities, challenges abound. Several major ones have been imposed by the American taxpayers themselves. They include: (1) the U.S. government's ongoing reluctance to grant permits for sensitive technological transfer that is readily transferred to the member-states by other countries, including America's allies, and (2) strict enforcement of U.S. foreign income tax, sales promotion, and unilaterally enacted sanctions as well as anti-boycott legislation, for which the U.S. is recognized throughout the GCC region and, indeed, the rest of the world as the undisputed champion.

Such self-inflicted restrictive trade and investment laws governing U.S. foreign business practices have no parallel in any other country. To the delight of America's commercial competitors worldwide, they continue to hinder the furtherance of GCC-U.S. business interests.

Yet, despite these impediments, American firms, on the whole, are well-equipped to compete effectively in GCC economies with advanced technology, manufactured products, and management and marketing skills as well as quality service in spare parts, maintenance, and operations.

Expanding the Relationships: An Inevitable, Desirable Step

Notwithstanding the difficult challenges that lie ahead, an expansion in the GCC-U.S. trading relationship seems not only inevitable but mutually desirable. The reasons are several. For one, it is increasingly apparent both to GCC private sector corporate leaders and investors and their American counterparts that the GCC countries are becoming one market instead of six. The days in which U.S. business representatives accurately perceived the GCC region as representing only limited sales potential in terms of consumer goods and services are over.

Instead, there is a heightened awareness that the GCC members are rapidly becoming a hub for regional trade, services, manufacturing, distribution, and investment opportunities in a catchment area of more than one billion people that stretches from the eastern Mediterranean and East Africa through Central Asia and the Indian subcontinent to Southeast Asia.

Among American business and other leaders, there is also a much broader appreciation that the United States and the GCC states have increasingly needed and depended upon each other – strategically, economically, politically, and commercially.

Beyond this, something more profound and fundamental is at play in the U.S.-GCC trade and investment relationship: the potent combination of assets and needs. The mutuality of business and other economic interests that exists between the United States and the GCC countries rivals any other developed-developing country or regional relationship.

These and other unique features of the overall U.S.-GCC relationship seem likely to lift the commercial ties between the U.S. and the member-states to ever higher levels. From any clinical, detached, objective perspective, it would be difficult to argue otherwise.

The reasons are unassailable. The six GCC countries encompass a region of indisputably vital importance to global peace and prosperity. Beneath their territories lie the resources that drive the engine of the world's economies and the hopes and dreams of billions for a steadily improving standard of living.

Added to these constants and considerations in the crucible of any American commercial policymaker's or decisionmaker's strategic calculus of costs and benefits is the fact that: (a) the member-states promote free-market economies, (b) they respect private ownership, and (c) the GCC countries' merchants have long manifested a commercial acumen that is the envy of business leaders and investors the world over. These three features, combined with the technological, manufacturing, and management skills of the member-countries' American counterparts, give the two sides a powerful edge when competing together for GCC and other regional markets.

Helping move U.S.-GCC commercial cooperation forward is the fact that thousands of GCC citizens are graduates of American institutions of higher education. This, in turn, promotes a broad-based preference among GCC consumers and investors for U.S. technology, standards, specifications, and management techniques.

In all of this, there is the steady drumbeat of Americans becoming increasingly keen to take advantage of the many opportunities for business with the GCC countries. More and more Americans are also aware that the GCC countries' efforts at regional cooperation, organization, and burden-sharing – among themselves and with their U.S. and other friends and allies – represent the most innovative, bold, and promising experiment of its kind in modern Arab history.

As this knowledge and understanding of the GCC continues to grow, there is little doubt that the U.S. corporate sector will seek to consolidate, diversify, and increase U.S. trade and investment ties with the member-states.

About the Author

Dr. John Duke Anthony is the founding president and chief executive officer of the National Council on U.S.-Arab Relations and a founder, board member, and secretary of the U.S.-GCC Corporate Cooperation Committee. A member of the Council on Foreign Relations and of its study groups on U.S. policies toward the Gulf, he is also a founder and former president of the Society for Gulf Arab Studies; a founder and board member of the National Commission to Commemorate the 14^{th} centennial of Islam; a founder of the Commission for Israeli-Palestinian Peace; a co-founder of American Educational Trust; a former President of Middle East Educational Trust; a past board member of American Near East Refugee Aid; and a consultant, for the past 25 years, to the U.S. Departments of Defense and State on American policies toward the Arabian Peninsula and the Gulf States.

From 1976 to 1988, he was coordinator for the Area Studies Training Program for U.S. Personnel, U.S.-Saudi Arabian Joint Commission on Economic Cooperation, U.S. Department of the Treasury. In 1975-76 he directed the Near East and North Africa Area Studies Program at the U.S. Department of State's Foreign Service Institute. In 1993, he received the Department of State's Distinguished Lecturer Award, one of three awarded over a span of 25 years, in recognition of his contributions to the preparation of American diplomatic and defense personnel assigned to the Arabian Peninsula and the Gulf states. In 1994, he received the Stevens Award for Outstanding Contributions to Arab-American Understanding.

Dr. Anthony has taught courses on the Middle East at the Johns Hopkins School of Advanced International Studies, the Universities of Pennsylvania, Texas, and Virginia, the U.S. Naval Postgraduate School, and the Defense Intelligence College. For the past quarter century he has been a regular lecturer at the Department of State's Foreign Service Institute and the Defense Institute of Security Assistance Management. He is the only Westerner to have been invited to attend each of the Gulf Cooperation Council's annual Heads of State Summits since the GCC's founding in 1981. Dr. Anthony's best-known work is his *Arab States of the Lower Gulf: Peoples, Politics, Petroleum*. He is also the author of more than 100 articles, essays, and chapters in books dealing with the Arab countries, the Middle East, and the Islamic world.