GULFWIRE - GCC SUMMIT REPORT

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RIYADH, November 28 - The 20th GCC Heads of State Summit opened in Riyadh yesterday with King Fahd Bin Abdul Aziz Al-Saud delivering the inaugural address. In his welcome to GCC leaders King Fahd said, "The world is advancing quickly toward open markets and borders... We cannot deal equally with (huge economic unions) without a single Gulf economic body," according to a Gulf News (UAE) report. Today Foreign Minister, Prince Sa'ud al-Faisal announced the summiteers had agreed to the formation of a GCC-wide customs union by March 2005. What follows is an analysis of the significance of this agreement.

TARIFF CATEGORIES

There are three categories of dutiable classification: the first is exempt from any tariff (basic foodstuffs and medicines), the second is to be taxed at the incoming rate of 5.5% (items that are essential to the manufacturing of industrial goods and the production of agricultural commodities and which, in some cases, would compete with locally manufactured or produced items), and the third is luxury items, which would be taxed at a rate not less than 8%.

COMPLEX WORK REMAINS

You can read this two ways. That the heads of state have committed themselves to a deadline lends a degree of clarity that was previously absent. That clarity will be an aid to business, financial, and investor planning. It will also give a fair amount of breathing space for monetary and fiscal authorities to prepare for the day when today's status quo will have disappeared and arrangements for a customs union will have been agreed to and its administrative/bureaucratic structure all but in place. The latter is no small matter and likely to prove complex. Certainly, there is no precedent for anything like it in the Arab or Islamic world. The model with which the GCC countries are most familiar -- the EU's -- developed over an extended period of time and with countries and economies profoundly different from those in the Gulf region.

Some of the more elemental questions for which few have answers are:

- Where would the administrative apparatus of the "union" be headquartered?
- Who will head it?
- By what formula(s) will the revenues be disbursed?
- What kinds of formulas or mechanisms will be adopted to provide compensation to those whose existing customs-based revenue systems will be dealt a setback as the new system -- together with as yet to be determined rules, regulations, and laws -- kicks in?

The issue of compensation alone is one of no small concern. Uncertainties surrounding this matter have been among the major reasons for the reluctance of the UAE -- especially Dubai and some of the other low tariff emirates -- to express any enthusiasm in this area of pending pan-GCC economic "reform." I put reform in quotes because some import merchants will see such changes as "regression" and likely to drive some customers away and preclude others from coming. In any event, it is an open question as to whether such compensation as may/as must be forthcoming would be deemed acceptable and satisfactory on the grounds that it meets the criteria of "prompt, adequate, and effective." And this is just one of the thorny issues to be resolved.

CONSENSUS BUT…

Additional positive features, if one is in the "spinning mode," would be that this at least puts the GCC countries ahead of any and all others in the Arab and Islamic world on the economic cooperation and integration front. It shows what six broadly like-minded countries (on the macro political, economic, defense, and security issues of the day) can achieve by way of common purpose and vision. It manifests a degree of proactive steps in the direction of greater self-reliance that, on the whole, bode well for the GCC-region in general. It should play reasonably well in the councils of their primary allies further afield and serve notice to others nearer to hand that the GCC is more than a forum, it is a vehicle for forward movement as well.

If one were to air the views of critics and cynics, one would have to say the following: First, the date of 2005 misses by a substantial degree the target date of March 2001. The latter date was agreed to in principle at last year's summit. The fact that the six heads of state have agreed to a postponement of this length suggests the UAE played an exceptionally strong hand while consenting to any binding agreement at all. If politics is the art of the possible, all one can say is: what the six implied last year would be possible encountered difficulties this year and 2005 was the best they could do and still reach an agreement. Second, the long lead time required to form the "union" suggests to detractors the GCC has difficulty accomplishing collective actions. Naysayers and others who place little stock in what the GCC represents will say that the 2005 date is prima facie evidence of the GCC being akin to six mountain climbers in the sense that the six can only move as far and as fast as the most laggard one among them. There is always the theoretical option of five bidding adieu to the sixth. However, the practical consequences would be unpalatable:

The lengthy deferral also suggests there is not yet a consensus that the whole should dictate to any one of its parts. The GCC has no supranational authority as of yet, although restraints on the manifestation of their respective sovereignties are imbedded in the explicit nature of the 2005 date, to be sure.

SENDING SIGNALS?

There is another aspect of the customs union that deserves further analysis, although much of it is speculative in nature. That is the fact that the UAE delegation was not headed by its head of state but, rather, by its Vice-President. There is precedent for this, as the UAE's President missed one previous summit. President Zayed was absent two years ago from the summit in

Qatar on grounds of illness, which was the reason given this time. Others impute that the absence may serve to reinforce the UAE's concerns over the direction some of the GCC's members appeared to be willing to orient their relations with Iran. The UAE sees such relations through the lens of the Gulf islands issue. For the UAE it is major unfinished business -- supported by the other five GCC members -- involving Iran's continuing violation of the UAE's national sovereignty and territorial integrity. The UAE has long been vocal in calling for a united GCC stand against the ongoing Iranian occupation of the Abu Musa and Tunbs islands and the dramatic alteration of the islands' infrastructure, population, and administration.

For perspective in an American context, it helps to think in terms of Canada having occupied all of New England -- Maine, Vermont, Massachusetts, New Hampshire, and Rhode Island. Politics alone would require that Washington never fail to stand up and speak out for the rights of New Englanders in any forum where matters touching on Canada and the occupied American states are voiced. It would also necessitate that New England's representatives leave no stone unturned in endeavoring to ensure that Washington not relate to Canada on a "business as usual" basis until or unless the matter in dispute is satisfactorily resolved.

Observers will read into and tease from the foregoing what they may. But there is another angle to consider. It is that the Tariffs Accord was for the UAE's Emirate of Dubai an extraordinarily bitter pill to swallow. Who better to sign on behalf of those who perceive themselves to be affected most negatively than one of their own -- their own ruler (the UAE Vice President) -- rather than the head of the country who is also the ruler of a profoundly different emirate, Abu Dhabi. It, in contrast to Dubai, survives and thrives not on commerce so much as by its prodigious reserves of oil and gas?

A BROAD AGENDA

This is, in short, very much a high profile economic summit. However, all the other standard issues are being discussed at length. On the political front, these include Iraq, Iran (the island issue and relations apart from the islands question), the Middle East peace process, Kosovo, and Chechnya. On economic issues other than the common tariff, there is discussion about all the relevant World Trade Organization issues, including those simultaneously being deliberated in Seattle. More pointedly, discussions are focusing on: an effort to liberalize laws pertaining to foreign real estate ownership; and a host of issues bearing on the pan-GCC objective of increasing the inflow of investments from abroad. The investments sought are both those from multi-national companies and the $400 billion in private GCC wealth parked abroad (for reasons owing mainly to the lack of comparably attractive and profitable investment opportunities at home).

There is also a good chance to register progress on efforts underway for sometime now aimed at further harmonizing the six member-states' educational curricula -- especially in the science and technology areas as well as those that bear on training, human resource development, and the inculcation of market-oriented skills. The summit will also seek greater consensus on how to address the region's population growth and rising unemployment levels.

Saudi Arabia and Oman have been at the forefront in linking the future prospects for regional peace and prosperity to progress in defense cooperation. For now, however, no one is under any illusion that much can be accomplished on the ground and naval forces front, owing largely to the relative dearth of manpower vis-à-vis their far more populous and heavily armed neighbors Iran and Iraq. The focus has therefore been on doing what can be done to strengthen and enhance the effectiveness of their cooperation and integration in the area of air defense. In this area of development, it would be an understatement to say that the GCC's member-states will find no end of helpers in the industrial countries who are ready and willing to assist.

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