21st GCC SUMMIT RESULTS, PART ONE: ECONOMIC ISSUES

By
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[Special to GulfWire - January 7, 2001, Kuwait] GulfWire's Dr. Anthony was present for the GCC's 21st Heads of State in Bahrain. Following is the first installment of his three-part summary of what transpired.

Editor's Note: For background information on the 21st GCC Summit visit: CLICK HERE

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The 21st annual GCC Heads of State Summit concluded on December 31. The rulers met in Manama, the capital of member-state Bahrain, to (1) evaluate their progress since last year's gathering, (2) assess the current regional and international situation, and (3) consult and, where possible, reach consensus on ways to move forward in pursuing their common needs, concerns, and interests.

As in each of the previous meetings, the substantive focus of the deliberations was three-fold. The member-states' leaders examined the implications of economic, political, and defense issues for their respective national and joint interests and key foreign policy as well as development objectives. What follows is the first in a three-part summary of the summit's results.

Why highlight economic issues before analyzing political and defense questions? Because this is what the GCC itself does. The rationale, as one of the members' foreign ministers commented to me, is straightforward. "This is the one area," he said, "that touches the citizenry more than any other. On a day-to-day basis, nothing else comes nearly as close to affecting their material welfare. The goal of improving the standard of living of our people is one of the GCC's most important objectives."

There is an additional reason. It has to do with the first pan-GCC agreement, the Economic Unity Agreement (EUA), which, as its name suggests, is focused exclusively on economic issues. Even now, almost two decades since the GCC's formation, the members' June 1981 Economic Unity Agreement dwarfs any and all of their other undertakings.

The evidence is in the sheer frequency and number of year-round meetings. The members' joint sessions on economic issues are four times as numerous as the number of meetings on defense or security issues. This is in spite of the fact that many westerners have incorrectly viewed the GCC since it began as primarily a defense or security-oriented undertaking.

The evidence is also in the GCC's allocation of human resources. Fully 85 percent of the Secretariat's 300 person staff work on economic or economic-related issues. The number of GCC employees assigned to work on defense-related issues is substantially fewer, and their activities, for the most part, occur largely outside the work of the Secretariat.

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External Tariff Accord

On the economic front, the leaders revisited last year's breakthrough decision in Riyadh. On that occasion, they agreed to unify their external tariffs by or before a specific date. They did so pursuant to several economic goals. One of the most important is the hope of being able to conclude a mutually beneficial free trade agreement with their most important trading partners. These are the 15 member-states of the 330-million strong European Union.

In Riyadh, the summiteers agreed to a March 2005 deadline for having their common external customs regime in place. At the previous summit, the representatives of Dubai and other members of the United Arab Emirates, as well as significant numbers among the industrial sector leadership in Saudi Arabia, thought that this might be too soon. In the end, they committed to the deadline in spite of their reservations. All agreed that half a decade should be ample time to enable everyone to make the necessary adjustments in order for the accord to take effect.

In this summit, to the surprise of some, one of the members recommended exactly the opposite. If last year the unknown was whether the six could reach a binding agreement at all, this year summit host Bahrain proposed moving the date forward by two years to 2003. It found no takers. But in sticking to what they had agreed before, the members added a caveat. Any member-state that desired could ready itself in advance of the others if it chose to do so. The heads of state praised Bahrain's leaders for their initiative.

Bahrain, if only by example, tried to inspire the others on another tariff-related matter. This concerned an issue that had eluded consensus at all of the previous summits. It pertained to the rate of customs duties levied by member-states on the import of automobiles and automotive spare parts. The issue is one that has thus far eluded agreement among the members. Two days before the summit commenced, Bahrain astonished everyone by unilaterally slashing its customs duties on imported vehicles. But, again, no one followed suit.

Energy Issues

In comparison with any other consideration, whatever GCC summits say about petroleum prices and production is almost always of over-riding interest internationally. But what is of interest is that, ordinarily, the summiteers have little, if anything, to say about these matters. Indeed, many of the past summits' final communiques have excluded mention of the topic altogether. This is not to imply that the members do not address the topic when they meet. They do. But they typically do so away from the glare of media and other hype related to a summit gathering.

One reason is that the leaders do not want to appear as though they are upstaging or in any way taking a stand apart from that of the Organization of Petroleum Exporting Counties (OPEC). For Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates, the four GCC states that are OPEC members, this has long been a matter of de facto policy and practice. In the Bahrain summit, such a consideration took on added significance. The members were scheduled to meet with their OPEC colleagues within days of the summit's conclusion.

Secondly, the GCC members do not want the world to think of them in terms of some kind of "GOPEC." This is the catchy word that specialists use sometimes when referring to a non-existent "Gulf Organization of Petroleum Exporting Countries." Not least among the reasons, again, is their not wanting to do anything outside the confines of OPEC that pertains to the making of oil policies. Left unstated was a possible additional reason: neither Iran or Iraq are members of the GCC, nor is either likely to be.

Thirdly, GCC member-state leaders deplore the fact that much of the world continues to perceive the GCC region as a collection of oil wells, not countries. This is one perception they have no interest in fueling. The members' interest instead is in projecting an image that is over and beyond the fact that they account for almost half the world's total known petroleum deposits. A major part of their common quest is to be taken seriously as actors and factors with regard to a broad range of international economic and related issues beyond energy and to be viewed, as a consequence, not merely as objects.

Notwithstanding these considerations, the Bahrain summit was slightly different in this regard. One of the reasons was the members' interest in leaving no stone unturned in preparing the world's oil-importing nations for what they expect to result from the next OPEC meeting: production cuts. A second reason was to respond quickly and decisively to major oil-importing country leaders' call for the petroleum-producing countries to open their spigots further than they already have.

From the GCC members' perspective, appreciating the domestic political stimuli behind such statements by foreign leaders is one thing. Accommodating the policy recommendations that accompany them, when to do so would be against their interests, is quite another. The summiteers therefore served clear and credible notice that an OPEC decision to adopt cutbacks in output is imminent.

In the process, the leaders were keen to point out what they and their fellow OPEC members have done between the previous summit and this one to help meet the stated needs of oil-importing countries. The members raised production levels an unprecedented four times. The members and their OPEC colleagues have indicated that, in their next meeting, rather than raise production again, they expect to remove from between 1.5 and 2 million barrels a day from the market.

Citing their pressing economic and development needs, the summiteers regard a decision along these lines as only prudent. None are willing to consider measures that might reverse the gains they have made in the past two years.

Stated differently, there is no support for policy measures that would risk sending prices back to below ten dollars a barrel. Their target remains an average of $25 per barrel, which is higher than the price that prevailed when the summit began.

The summiteers also made reference to other oil-related issues. Regarding one, they called attention to the high-level forum that Saudi Arabia hosted in November 2000 for leaders of the world's major petroleum exporting and consuming nations. This was the seventh such session of its kind.

Saudi Arabian Crown Prince Abdallah proposed to his colleagues that there be a permanent secretariat for the forum. Its purpose, he indicated, would be to facilitate follow-up and serve as an aid in planning between the participants' periodic meetings. The summiteers saw this as a further step in the direction of providing greater width and depth to the dialogue between energy producers and consumers. Such a body would complement the work of the International Energy Agency in Paris that deals with energy issues primarily from the perspective of consumer countries' needs and concerns.

International Economic Blocs

The summiteers also addressed the state of their ongoing dialogues and consultations with various international economic blocs. These were developed earliest with the European Union, with which the deliberations are further developed than they are with any other foreign grouping.

The state of play with respect to the GCC and the United States, and with Japan and the European Free trade Association, is less than that between the GCC and the EU in this respect. For example, there is as yet no significant economic or trade agreement between the two sides.

By contrast, the GCC has had a formal agreement with the EU since 1987. In addition, for nearly a decade, the GCC has had an office in Brussels, complete with staff that represents the GCC and its members to their fellow EU signatories on a permanent basis. No comparable GCC office or any other form of representation exists in any other country outside the GCC.

The GCC-EU accord deals largely with industrial issues and, more specifically, with the energy and petrochemical components of the relationship. The two sides remain wedded to the goal of concluding a free trade agreement once the GCC’s unified tariff agreement has been readied for implementation.

There nonetheless continues to be movement with regard to GCC-U.S. economic and commercial issues. On the GCC side, H.E. Dr. Jubarah Al-Suraisy, Saudi Arabian Deputy Minister of Finance and GCC Special Representative for Commercial Negotiations, has carried forward the work begun earlier by the late Mamun Kurdi. On the U.S. side, the effort has been shared between the Departments of Commerce and State, with private sector support coming from four organizations.

In addition to the U.S.-GCC Corporate Cooperation Committee and the National Council on U.S.-Arab Relations, which serves as the Committee’s Secretariat, these include the American Business Council for the Gulf Countries, and the National

U.S.-Arab Chamber of Commerce. [See Jan H. Kalicki, "U.S.-GCC Business and Economic Dialogues: Progress and Prospects," U.S.-GCC Occasional Paper Series Number Seven, Washington, D.C.: U.S.-GCC Corporate Cooperation Committee, 2000. For regular updates on the state of U.S. economic, commercial and related interests and involvement in the GCC region, see the weekly emailed newsletter GulfWire. Free subscriptions are available on-line at email: GulfWire@ArabiaLink.com

Money Matters

Not all of the summiteers' stances had a conservative bent. Nor could all of their actions be considered synonymous with the phrase "steady-as-you-go." For example, for the first time in quite a while, the heads of state took up the issue of currency unification. Their frame of reference was Article 22 of the Economic Unity Agreement. The article calls for coordinating their respective financial, monetary, and banking policies as well as promoting coordination among their monetary agencies and central banks, including agencies dealing with currency matters.

Previously, most GCC leaders had held to the view that to discuss and decide this issue before other goals were achieved would be premature. Some felt that it would be best left until the end. That point, in the eyes of many, will have been reached when a far greater degree of regional economic integration among the members achieved than that which has transpired thus far.

Despite these concerns, the leaders decided to address the topic at this time. That they did so was, to some outsiders, a source of confusion. It led more than one to assume that their holding formal discussions on the issue could mean that the end game is nearer to hand than many had supposed.

It is not.

Others came at the matter differently. They thought that perhaps the nature and number of intra-GCC economic linkages might have reached a point where currency unification might logically be the next appropriate move. But this, too, is not the case.

Instead, summit discussion of this issue was, if anything, a sign that the members firmly expect their institutional experiment to endure. This alone is a matter of no small moment. Indeed, prior to last year’s breakthrough on the customs accord deadline, the degree of pan-GCC certainty on this front was not nearly as palpable as it is today.

The significance lies also in the members' realization that they will have to tackle this issue at some point, and that it is in their interests to do so earlier rather than later. In this light, their seeking to reach consensus on a joint formula for unifying their currencies is seen as an important first step. Subsequent moves on this front are likely to be linked with the implementation of their unified tariff accord, common market, and customs union.

Not a "Swim or Sink" Proposition

The issue of whether the GCC decides to adopt a single monetary instrument is not a vital one. Neither is it a matter of "swim or sink." Thus far, it bears little, if any relation, to the more existential question of whether the GCC will adopt the kinds of policies necessary to ensure that its members survive and thrive. Neither is it the sine qua non of their commitment either to establish a single market or to strengthen an already prominent inter-regional distribution hub that would cause even greater numbers of foreign investors to flock to the Gulf.

For the moment, the GCC leaders' economic sights are set on lesser targets. Anything they can do to enhance the material welfare of the GCC citizenry will be well received by their constituents. The arguments in favor of currency unification are compelling. They hold out the prospect for improving the member states' overall economic efficiency and effectiveness. In time, a common currency should make it a lot easier for practically everyone to do business in the GCC region.

Having a single set of financial instruments serve as legal tender for all six polities has a certain salience unto itself. It would immediately further distinguish the member-states’ pro-active economic image from that of all the other 16 Arab, 22 Mideastern, and 49 Islamic countries. The GCC, after all, forms the economic backbone, and comprises half the financial capital, of the 14 countries committed to the establishment of an Arab Free Trade Zone by 2008.

Moreover, a single GCC currency would undoubtedly shrink the differences among the member states. It would tighten the links between and among their banking and investment sectors. It would strengthen their financial and fiscal frames of reference for future planning. It would enhance their ability to adopt a more unified approach to their macro economic policies. It would provide a shot in the arm to the micro components of pan-GCC projects. Many of these have been on the drawing board for quite some time, but agreement on their financial feasibility and decisions related to their currency components have yet to be reached.

In any case, one member, Kuwait, remains wedded to a different idea. Kuwait continues to link the exchange rate of its dinar not to a single criterion or frame of reference, but, rather, to a basket of currencies. There is wisdom in its doing so, as individual currencies within the basket sometimes fluctuate wildly. The age-old adage of not placing all of one’s eggs in the same basket applies.

Dollars and Euros En Route to a Gulf Dinar?

The other five GCC countries have their own currencies, too. For ease of convertibility, they decided long ago to peg their exchange rate to the U.S. dollar. This, too, makes sense, as oil, their greatest export, has long been denominated internationally in the currency of the country that remains by far the world's single largest importer and consumer of petroleum. Of the 77 million barrels of international daily consumption of oil, the United States consumes 20 million barrels, almost a fourth of the total.

Yet financial strategists and planners are increasingly analyzing the wisdom of the Arab and other oil-producing nations' reliance on the dollar. Iraq, for one, calling the dollar "the currency of the enemy" and "an instrument of American hegemony in the Gulf and elsewhere," has switched from the dollar to the Euro. Whether others will follow suit remains to be seen.

But the decision of most of the EU members to move in the direction of the Euro is the greatest reason why the matter merits revisiting. The EU countries are by far the GCC states' largest trading partners. It is with these countries that the GCC are en route to concluding a far-reaching free trade agreement, a goal that will be addressed anew when key GCC and EU economic leaders and policymakers meet in April 2001.

The GCC leaders' discussion of the pros and cons of the unified currency issue aside, no major decision was taken on this matter at the summit. It was enough that the deliberations themselves indicate where the members are headed. And it is of interest that an acceptable divergence of viewpoint was on display among the members. Kuwait, for example, indicated that it would accept a unified currency when, and only when, all the other five agree to do so.

Other members had their own views. There are signs, for example, that Oman may choose to maintain its rial separate from any agreed common unit even if and when the others opt for a single currency. Were it to do so, the GCC experiment could still succeed. Indeed, Great Britain has been proceeding along similar lines with respect to the Euro. For now, the GCC states apart from Kuwait will continue to peg the exchange rates of their currencies to the American dollar.

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Rialestate and Rialpolitik

The GCC leaders did decide two important issues with economic implications. One was to allow GCC citizens to increase by a substantial degree the extent to which they can own land in other GCC countries. Previously, the typical purchase of real estate by one GCC national in the territory of another GCC member-state was, as a matter of pan-GCC policies and laws, limited in size and scope. What was permitted and encouraged was heavily oriented towards the right to build, occupy, and/or lease to other GCC citizens a modest second home.

One of the original objectives was to encourage intra-GCC travel and familiarity. It was also to give a boost to tourism and the service sectors in each of the member-states. Now, though, citizens can invest in other member-states' land for purposes of construction, services, or entertainment. The economic potential in each of these new sectors far outstrips what was possible when the typical purchase was for the equivalent of a condominium in a fellow GCC country. Even so, it remains to be seen when this substantially widened scope for intra-GCC investment will have an effect on the region's economies.

Embedded within the summiteers' decision on this issue, and part of their reason for insisting that they continue to study "the impact of migrant labor," are important strategic goals. At the top of the list is job creation. Construction, services, and entertainment (e.g., hotels, theme parks, etc.) employ substantial numbers of people. Second, the new policy offers the modest prospect of increasing the ways in which some of the billions in GCC citizens' investments abroad might be repatriated.

Third, the decision is aimed at elevating the quantity and quality of local venues and kinds of enterprises in which foreign funds can be placed for development purposes. Fourth, the move is intended to enhance the diversification of the recipient countries' economic base. Fifth, the hope is that it will help decrease the number of reasons for money to leave the region in the first place.

Harmonizing Civil Service Reforms

An additional economic-related decision was also modest in nature and scope. It focused on the need to harmonize the rights and benefits of the six states' civil service employees. More specifically, it fit the overall tone of the summit in stressing the importance of achieving a sense of strategic oneness in as many areas of common interest as possible.

The effort to narrow the differences in benefits between and among public employees in the member GCC states is to be seen in this light. Few details are presently available as to how this particular constituency might gain materially from the decision. But all agree that the beneficiaries of any advances on this front are and will remain a vital element in the GCC's intra-regional and national development processes. They are not only the largest sector of locally employed citizens. They are, also, the eyes, ears, and pillars of support of virtually every GCC government.

One school of thought holds to the view that reforms in this area are vital to the region's future development potential. As such, they are seen as linked directly vital to the goal of improving the prospects for overall economic growth and of increasing domestic as well as foreign investment in particular. In this regard, issues pertaining to the civil service sector come into play in various different ways. One that is becoming increasingly important is the speed and ease with which the privatization of public economic enterprises is likely to take place.

No one denies that, in many cases, the privatization of previously state-owned companies will entail the loss of jobs. No one debates the corollary either. That is, if there is no assured and efficient safety net in place for the affected employees, it will not be a matter of whether but when there will be a negative impact on stability.

In this context, a working hypothesis is as follows. The anxieties of any employee who is slated for imminent lay-off or early retirement cannot be dismissed out of hand or lightly. Their concerns are real and legitimate. Accordingly, to the extent that GCC and member-state policymakers can provide such citizens a realistic chance of marketing their services elsewhere in the GCC region, the goal of buttressing the severed worker’s post-employment prospects is enhanced.

A parallel theory with broad appeal to GCC economic planners relates to the manufacturing sector. It is that, in the GCC of the foreseeable future, parts of a product made in one GCC state would join those produced in another. These two parts, in turn, would be mated with another component manufactured in a third member country. Then all three parts would link up with a fourth and possibly a fifth and sixth part in yet another member-state. At the end of the process, a specific finished product would be assembled and readied for sale. Along the way, everyone involved would have benefited. The concept is not unlike that which goes into the making of an automobile in the United States, Japan, or elsewhere.

Theory versus Reality

This kind of forward-looking policy, if nothing else, definitely increases a citizen's macro job-related options. Moreover, there is value in leaders being decisive on potentially contentious issues that, left unattended, might fester and, sooner or later, explode. What is meritorious in this instance is that all six leaders agreed to such measures at what is probably not a moment too soon. More and more elements among their citizens are confronting an uncertain employment future.

But good intentions are one thing. Implementation is quite another. For perspective, it may be helpful to recall that, five years ago, Kuwait sought to help ease Bahrain's mounting employment problems. It did so by offering to give favorable consideration to hiring any Bahrainis that might be willing to relocate to Kuwait. The spirits of many Bahrainis without employment were thereby buoyed.

For a variety of reasons, few Bahrainis took advantage of the opportunity. This was despite the fact that many explored the possibilities. The reason given me by one high-ranking Bahraini official was, "The jobs offered were low-paying and low-level. Many Bahrainis considered the positions available to them to be beneath their dignity."

That may have been so. But nearer to the truth is another factor. At the end of the day, emigration and/or relocation outside one's home country for purposes of employment – for Bahrainis and most other GCC citizens -- is yet to become a believable proposition. Neither, thus far, is it a preferable phenomenon, unlike the situation in India, Pakistan, the Philippines, and Sri Lanka, which passed this developmental challenge and opportunity more or less successfully quite some time ago. Even less, within the GCC, has it become an observable reality from which economists and financial analysts might benefit with regard to future planning.

Three Important Things: Jobs, Jobs, and Jobs

Still, it is coming to this. The reason is that the options for would-be job seekers are dwindling rather swiftly to two. One turns on whether an individual's parents or other relatives can afford and would allow the individual to remain, as it were, on the family dole. In some cases, this issue could be finessed or resolved by taking into consideration the monetary value of an individual's inheritance. It is possible that arrangements along either of these lines might enable the beneficiaries to spend their adult years outside their country's economically active population, doing, in essence, virtually very little or nothing for a living.

The price for choosing this path, though, would likely be calculated in more than material terms. It would entail the individuals' deliberate decision to opt for a lifetime of unemployment. It would be synonymous with a refusal to try to make their way by what is known as work. However rationalized internally and explained to others, it would carry the social stigma of the individuals concerned having chosen to depend upon others, or a source of unearned income, for their existence.

The second option is a job. Increasingly, economic realities indicate that such a job, if a suitable one can be found, will be beneath the status of what, growing up, one had hoped and expected. Even so, a job by any other name is still a job. And for the job-holder, there would be the prospect for a modicum of self-esteem and dignity that is ordinarily associated with one who is actively employed. With it, too, should come a greater degree of inner certainty that, in time, one would be able to marry and have a family.

Alternatively, for those that elect not to marry, there would be a measure of assurance that, at least, they would be able to make their own way. In addition, there would be a reasonable degree of certainty that, over time, one would win the admiration and respect of their family and fellows.

To be sure, these are ideals. They are the socially acceptable norms. There are and would be many exceptions. The challenge for the GCC's decision makers lies in coming to grips with the policy implications of the fact that, for a growing number of citizens, such ideals and norms are becoming further and further beyond their reach.

The challenge is also to recognize that the problems and challenges described all too superficially here do not apply no to the readers of Gulf Wire. Nor, in reality, do they apply to policymakers and decision makers within the GCC or any of its member-states.

Gulf Wire readers and GCC as well as GCC member-state decisionmakers and policymakers, as one astute observer aptly remarked, "are not real people." In this person's definition, "real people" in the GCC that are looking for jobs "do not read English. They don’t speak it or understand it when it is spoken either. They do not have a computer. They are not proficient in the ways of information technology and hi-tech communications. They do not have relatives or friends in high places that are on the lookout for any positions that may be open to them."

"They do not drive an expensive car. Most do not even have a car. They haven’t a single skill that is marketable in today's economy that is not also possessed by ten thousand of their countrymen who are also looking for a job. They're the 'real people.' The analysts and policymakers charged with addressing their needs are not. The latter will do fine. They're mutli-lingual. They're multi-skilled. Their talents are in demand by many. If they lose their jobs, they'll land on their feet.

"But the real people …?"

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The way home along this road will be not be swift. A lot of speed bumps lie ahead. There are no short cuts. It will not be easy. Such things never are.

For increasing numbers among the GCC’s coming generation, among the constituents of the region's leaders of tomorrow, the dream of having a job with a semblance of dignity and one that is well-paying and near one's family remains just that, a dream. As everywhere, not only the attainment but the continuity of comfort remains a powerfully seductive force.

But the present and the envisioned near-term future for many is hardly synonymous with comfort. They see their dreams as already dashed. Their musings about the life they would one day lead are nearer to fantasy than to real life. For others, the daily reality they confront in the job market is not fundamentally different. A car? Out of the question. Marriage? How? A home and a family? When?

For all who find themselves in this category of no tomorrows better than today, the future has another face. And behind it is a different mindset. Within it are convictions of another nature.

These are not castaways; they were never taken on to begin with. For many, what is certain is that things cannot, must not, remain as they are. Another is that the economic need to live and work away from one's home and loved ones has become the norm. This is a new and pressing reality. It already applies to a majority of citizens that are looking for employment.

Another certainty is the need to tackle the policy and related implications of the need for a differently configured GCC. Such a GCC would provide for a joint Gulf market of another kind, one that was long ago envisioned but has yet to be effectively addressed, let alone established: a common labor market.

Thus far, only the GCC's Advisory Council, an outcome of the 1997 GCC Heads of State Summit in Kuwait, has tackled this issue. Prior to the summit, the Council, comprised of five prominent citizens from each member country, studied this issue and offered suggestions. The members recommended that the heads of state move as quickly as possible to do whatever they can to ease the movement of job seekers between and among the member states. Partly as a reflection of the fact that all of the members have their own burgeoning challenge on this front, the matter remains under study.

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