THE GULF TAKES CHARGE: THE GCC IN THE MENA REGION[1]

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In the 21st century, leadership of the Arab world has shifted decisively from the ancient capitals of Cairo, Damascus and Baghdad to the Gulf. Hydrocarbon revenues have not only facilitated the exercise of conventional political leverage through the funding of other Arab governments, but the GCC countries have also invested heavily in influencing Islamic movements, confirming the Arabian peninsula as both the political and spiritual centre of the region. Arab leaders have also spoken admiringly of the Gulf's recent management of its hydrocarbon revenues in contrast with other countries in the region. Lebanese intellectual Rami Khouri praised the Gulf for having «transformed itself in just decades from a largely barren backwater to a dynamic engine of Arab economic investment, efficient planning and execution, orderliness and modernity».[2]

In recent years the non-GCC MENA states looked towards the boom and diversification projects of the GCC as a potential economic lifeline. GCC investment and general engagement with the region has undergone a significant expansion, yet this increase has been from a very low base. GCC external investment continues to be predominantly directed towards more secure markets in North America, Europe and South and East Asia. Of the $542 billion outflow of GCC funds between 2002 and 2006, only $60 billion was invested in the non-GCC MENA.[3] This limited amount of intra-MENA investment should not be dismissed however. In fact, as a proportion of GCC investment, this figure represents a rapid increase from an extremely low base with significant political and economic consequences for the region.

The critical asset of the MENA region since the mid-20th century has been its vast reserves of hydrocarbons. Oil and gas exporting countries of the region together account for 65 per cent of global oil reserves and 45 per cent of natural gas reserves. Yet there is a wide discrepancy in the management of the extraction and export of hydrocarbon resources in the region. Therefore while Iraq holds the world's third largest oil reserves, and Libya the largest in Africa, this is partly due to both countries enduring long periods of isolation and instability during which entrenched corruption had a corrosive effect on implementing the necessary infrastructure to increase exports. The GCC by contrast has been highly

1 This is an edited version of an original paper that was written for the European Commission's al-Jisr Research Project Consortium. This paper adheres to the World Bank's definition of the MENA which includes: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United, Arab Emirates, West Bank and Gaza, Yemen.

2 Rami Khouri (2008). «The Gulf states, change you can invest in», *Daily Star*, 27 August 2008.

3 John Pratap (2008). «Capital outflows from GCC total $542bn in five years». *The Gulf Times,* 13 January 2008.

pragmatic in the maintenance of its energy infrastructure.

MENA trade and investment figures confirm a glaring, and even widening, gap between wealth concentrated in the GCC in comparison to the rest of the MENA as a consequence of higher energy revenues. The GCC's population is a mere 42.5 million of a total 345 million for the region, yet it receives the lion's share of foreign exports' earnings. In 2007, $477 billion of the MENA region's total exports of $654 billion were from the GCC countries.[4] The gap between rich and poor in the region is reflected by an extreme variance in GDP per capita, which ranges from as low as $1200 in Yemen to as high as $70,000 in Qatar.[5] Exacerbating the problems of poor governance is the regional propensity to favour a high state monopoly over key economic sectors. Crucially in this conflict-ridden region, GCC governments can make strategic investments as a means of providing support to beleaguered governments in unstable countries such as Lebanon and Yemen.

Despite the improved performance of the GCC and countries such as Egypt and Morocco, the MENA region continues to lag behind in terms of global economic integration. In 2007 gross financing from international capital markets was the lowest among all developing regions and net portfolio equity flows were negative $2 billion, indicating a significant withdrawal of foreign capital from the region.[6] Intra-regionally it appears that the MENA is held together more by cultural affinity than economic expediency. Although the potency of Arab nationalism has declined from the heady days of Egypt's Gamal Abdel Nasser half a century ago –largely replaced by various trends of political Islam– pan-Arab institutes and a residual sense of solidarity serve to bind the region together. Political and religious mistrust of Iran, and to a greater degree of Israel, have historically left these countries politically isolated within the region. Meanwhile the oil largesse of the GCC member states has allowed them to invest heavily in countries for reasons of political leverage rather than economic prudence.

Intraregional trade: An overview

Trade in the MENA does not follow a general pattern and varies in each country depending on its location, levels of governance and political ties. Major political disputes and the frequency of war in the region have profoundly affected intra-regional trade. Factors that have had a negative impact upon intraregional trade growth in the region include political deadlock with Israel; the Iran-Iraq war; civil wars in Algeria, Lebanon, Sudan and Yemen; the fall-out from the invasion of Kuwait; condemnation of Libya and, more recently, Iran, over the funding of foreign insurgencies and nuclear enrichment programmes; the dis-

4 World Bank (2008). *2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness.* Washington DC: World Bank, pp. 104-114.

5 International Monetary Fund (2009). *World Economic and Finance Survey, Regional Economic Outlook Middle East and Central Asia,* May 2009.

pute over the fate of Western Sahara; the US invasion of Iraq; and the assassination of the former Lebanese Prime Minister Rafik Hariri. In contrast, the establishment of the GCC in 1981 marked one of the few constructive and effective initiatives to overcome local political differences in favour of establishing a pragmatic trade relationship in the region.

Following the misspent boom of the 1970s, the long period of economic decline in the 1980s and 1990s, during which time the MENA share of global trade fell from 8 per cent to 2.5 per cent, served as a sharp lesson for the region. Since the 1990s the major hydrocarbon producers have sought to diversify their export partners, a shift that has been facilitated by the emergence of India and China as major energy consumers. GCC states are also investing over $1.3 trillion in economic projects aimed at diversifying their economies away from hydrocarbon dependency. It is too early to judge the outcome of such ambitious plans, although there has been a significant increase in the non-hydrocarbon sector of the GCC economy.[6]

In 2007, intraregional trade accounted for 11.1 per cent of total foreign trade, which, although it appears modest, is a significant increase from the stagnant levels of the mid-1990s. In the non-energy sector, intraregional trade accounts for just under 25 per cent of all exports, but this varies considerably from the relatively closely integrated economies of the GCC to Libya and Morocco where this figure slips into single-digits.[7] In recent years Saudi Arabia has far outstripped other MENA countries in receiving new intra-Arab investments, more than half in 2007. Beyond the Arab countries, this is only matched regionally by Iran's heavy investment in the UAE as a means of circumventing sanctions and due to its mistrust of other Arab states in the region.[8]

Regional trade agreements

International trade statistics reveal that the MENA as a region has a consistently low trade complimentarity with the rest of the world. This is partly the result of the painfully slow process of negotiating and implementing an agreement to integrate the economies of the MENA. Historically there has been no shortage of such agreements, at least in the Arab countries where trade integration proposals have proliferated since the first Arab transit agreement of 1953 and the Arab Economic Agreement of 1957. These were followed by the Trade Facilitation and Trade Promotion Accord of 1981 and the establishment of the Arab Cooperation Council in 1989, both of which floundered in subsequent years. Of the sub-

6 Allan Dennis (2006). *The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North African region.* Washington DC: World Bank Policy Research Working Paper 3837, February 2006, p. 1.

7 World Bank (2008). *2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness. Op. Cit.*

8 The Arab Investment and Export Credit Guarantee Corporation (AIECGC) (2007). *Investment Climate in the Arab countries 2007*. AIECGC, p. 2.

regional initiatives, the Arab Maghreb Union, the Mediterranean Arab Free Trade Area and the Arab Common Market all failed to meet their basic objectives.

The GCC is the major exception to the general failure of these initiatives. Formed in 1981, it has consistently lowered external tariffs, introduced a Customs Union in 2003 and is committed to introducing a single currency. Despite occasional political acrimony among member states, such as between Saudi Arabia and Qatar, political disputes have not jeopardised prospects for the further economic integration of the six member states. This contrasts with the Maghreb where Algerian support for the POLISARIO independence movement in Western Sahara and ongoing disputes over border management has a devastating effect on trade between Morocco and Algeria.

The Greater Arab Free Trade Area (GAFTA) is undoubtedly the most comprehensive MENA trade agreement signed to date. Originally negotiated in 1997, GAFTA was ostensibly designed to phase in preferential tariff reductions among member states, leading to free intraregional trade by 2005. Yet implementation of GAFTA has varied considerably from country to country. The World Bank has observed the following negative trend whereby «some importing countries have asked exporters from partner countries to obtain special import permits that had to be presented to the border agencies in order to benefit from the preferences. If an import-competing industry could be harmed by the imports, these permits were often not granted, so that importers had to pay the full MFN [Most Favoured Nation] tariffs. Hence, the reduced tariff preferences exist only on paper, but not in practice.'[9] The UN observed that the average implementation of GAFTA regulations was 55.9 per cent but that this was insufficient to inspire greatly enhanced investor confidence including from the GCC.[10] World Bank estimates concluded that following GAFTA, the total gain to MENA amounts to a modest 0.1 per cent boost to regional income, which compares very unfavourably with the benefits of trade agreements with the EU.[11]

Table 1: Merchandise exports within regional trade blocks ($ Millions)

	Signed	2000	2001	2002	2003	2004
GAFTA	1997	16.238	17.528	19.195	21.511	36.027
ASEAN	1967	98.060	86.331	91.765	101.140	122.369
EU	1957	1.409.464	1.398.298	1.480.493	1.782.423	2.089.442
NAFTA	1994	676.141	639.419	626.020	651.060	737.591

Source: World Development Indicators 2006

9 World Bank (2008). *2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness. Op. Cit.*

10 Economic and Social Commission for Western Asia (2006). *Annual Review of Developments in Gobalization and Regional Integration in the Arab Countries.* United Nations Economic and Social Commission for Western Asia (UNESCWA), p. 50.

11 Allan Dennis (2006). *The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North African region. Op. Cit.* p. 12.

Bilateral trade agreements between GCC states and other MENA countries are not consistently applied. While some GCC states such as Qatar and the UAE have signed several trade agreements with non-GCC MENA states, others including Oman and Saudi Arabia have been reluctant to do so. Saudi Arabia's closest economic ties outside the GCC in the MENA are with Jordan, Lebanon, Morocco and Egypt but bilateral trading ties with the GCC member states have not advanced to the level these countries would have liked. Meanwhile Iraq's relationship with the GCC borders on being almost punitive as a consequence of Kuwait and Saudi Arabia insisting on the payment of billions of dollars in war reparations from the First Gulf War.[12] Iraq was also pointedly omitted from a decision in 2008 to include Jordan, Egypt and Turkey in key ministerial regional dialogues of the GCC, and Baghdad's membership of the Federation of Gulf Cooperation Council (GCC) Chambers of Commerce, suspended in 1990 upon the invasion of Kuwait, has not been renewed.[13]

The largest share of the net increase in intraregional trade in the MENA is between the GCC member states, which have recently formed a customs union and are planning to introduce a single currency.[14] The lack of integration of the MENA with the global economy represents a missed opportunity for economic growth – the World Bank has calculated that if the MENA maintained its 1985 share of world exports (which was already relatively low), it would have received some $2 trillion in extra export revenues during the period 1986-2003. By extension, if a comprehensive MENA FTA existed during this period it would have boosted trade by another 147 per cent.[15] At a development summit hosted by the Arab League in Kuwait in early 2009, delegates conceded that GAFTA has failed to substantially boost trade and acknowledged the gravity of the economic challenge facing the region. As a means to boost regional cooperation during the global economic crisis, the GCC member states committed almost $2 billion to provide loans and assistance for Arab joint projects. Delegates also agreed to launch a customs union in 2010, a pan-Arab power grid and a rail network. This announcement was greeted with some scepticism by analysts in the region who question their leaders' resolve to realise such commitments.[16]

The reasons for the non-emergence of a free trade area in the MENA are

12 This is a considerable increase on the $15 billion Iraq had previously believed it owed to Riyadh but both Kuwait and Saudi Arabia claim that accumulated interest is responsible for the increase in debt. Cf. «Iraq fears budget crisis, urges oil export boost». *The Guardian*, 4 December 2008.

13 Cf. «Iraq asking to restore its membership in the federation of GCC Chambers», *The Iraq Directory*, 23 October 2008.

14 UN Economic and Social Commission for Western Asia (ESCWA) (2007). *Regional Investment Directory Report: ESCWA Member Countries.* New York: ESCWA, p. 31.

15 Allan Dennis (2006). *The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North African region. Op. Cit.* p. 8.

16 Cf. «Arabs ease up on loans». *al-Okaz*, 21 January 2009.

diverse but include violent conflict, high transportation and communication costs and perhaps, most importantly, the inefficiency of a corrupt and bloated public sector in managing the economies of many MENA countries. The lure of trade agreements with the US, the EU and other external actors have also shifted focus away from intra-regional mechanisms to promote trade, and in the worst case, as in the US bilateral FTAs with Bahrain and Oman, have served to undermine existing structures such as the common market agreed between the GCC countries. Customs procedures can be notoriously complex and restrictive, involving multiple documentary requirements, the hiring of one or more local agencies, and dealing with several authorities that often have duplicate roles and inconsistent application procedures. This discourages GCC investment –frustrated Chambers of Commerce in the Gulf have reported that customs delays in some MENA countries has precipitated withdrawal from investment opportunities that on paper should be lucrative for the investor and the host country. In Algeria customs clearance for many goods takes an average of 11.7 days and in some cases up to 44 days. In Syria the average period is around 15 days, but frequently stretches to 30.[17]

In addition to tariff barriers, the Arab market is highly limited by physical obstacles in the transport sectors. Air transport, which is the main mode of transportation of goods and people, is concentrated in a few key airports, most of which are state-owned.[18] Deeper economic integration, therefore, requires the development of a transport system to reduce costs and time, and to increase quality and reliability.[19] There are positive signs that this is indeed taking place –MENA governments' easing of restrictions allowing for increased competition in the air transport sector has led to a rapid proliferation in intra-regional flight destinations during the past five years.

GCC investment in the MENA

In terms of seizing new prospects for investment and innovation in the MENA, the GCC states are clearly leading the way. Kuwait's telecommunications leadership in the region is an example: in less than 10 years it has become a telecommunications hub for the MENA, connecting over 27 million mobile subscribers in the MENA and sub-Saharan Africa. The GCC originally led calls for the loosening of communications regulations in the region, resulting in the successful privatisation of an industry that was formerly the preserve of the state. The GCC

17 Allan Dennis (2006). *The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North African region. Op. Cit.* pp. 7-8.

18 Alessandro Romagnoli and Luisa Mengoni (2009). «The challenge of economic integration in the MENA region: from GAFTA and EU-MFTA to small scale Arab Unions». *Economic Change and restructuring*, 42 (1-2), pp. 69-83.

19 Daniel Muller-Jentsch (2002). *Transport sector reform and deeper economic integration in the Euro-Mediterranean region*. Brussels: ERF working paper 0308.

also has a disproportionate influence in news and entertainment channels in the region. Arabsat provides more than 350 television channels and has more than 164 million viewers, carrying such channels as al-Jazeera, which has a major influence on pan-Arab opinion. An important recent measure led by the GCC states was the establishment of an Arab Network of Regulators (ARNET), which has moved to harmonise regulatory practices including National Information and Communication Technology (ICT).[20]

GCC investments in the MENA since 2006 have grown considerably, due to a boom in oil prices and an increase in investor confidence following market reforms that have been undertaken in some neighbouring countries. This is corroborated by the Institute of International Finance, which has reported a rise of 10-15 per cent in FDI holdings from the GCC in other MENA countries.[21] The type of GCC investment has also shifted: whereas in the 1970s and the 1980s GCC investments in the MENA were mainly in hydrocarbons and real estate, today the evolution of the GCC economies is reflected through their holdings in the wider region, including in financial services and manufacturing. These two sectors together add up to the 70 per cent of GCC investments to Egypt for 2007/2008. GCC investment constitutes a third of foreign holding in Egypt and almost half in Jordan, a remarkable increase since the turn of the century.[22] There is however a growing chasm between countries such as Egypt, Jordan and Morocco, which have moved to ease regulations to encourage FDI in recent years, and the stagnation of Algeria at the other end of the scale, which the GCC has avoided due to the complexity of regulations and the erratic behaviour of the government in Algiers.

The value of Gulf investments over those from Europe can be measured in sheer scale. An average Gulf investment in the MENA is $268 million compared to 70 million from Europe.[23] Gulf investors have therefore become a vital source of job creation in the region. Despite increasing diversification of its interests, just over 50 per cent of investments in the region are still in real estate, tourism, and American-style shopping malls. In 2007 nine out of 11 real estate projects that cost above EUR 500 million in MENA were by investors from the GCC, five of which are in Egypt.[24] Kuwait and the UAE both have respective investments in Egypt of approximately $3 billion, while UAE company Bukhater is investing $5 billion in the Tunis City of Sport and a further $1.9 billion is being invested by Qussor Marina into Tunisian tourism projects. Meanwhile in 2008, the Gulf Finance House announced it was investing $3.8 billion in energy projects in

20 World Bank (2008). *2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness. Op. Cit.*

21 *Ibídem*, p. 4.

22 Mahmoud Mohieldin (2008). «Neighbourly Investments». *Finance and Development* 45 (4), pp. 40-41.

23 Pierre Henry, Samir Abdelkarim and Benedict de Saint-Laurent (2008). *Foreign direct investment into MEDA in 2007: the switch.* ANIMA Investment Network. For more details cf. http://www.animaweb.org/

24 *Ibídem*.

Libya. Tourism from the GCC in the MENA has also boomed in recent years with Egypt reporting a three-fold increase in Gulf visitors since 2002.[25] However, despite the myriad of proposed Gulf investment projects in the Mashreq and Maghreb, many announced projects are never actually realised or are significantly scaled back by GCC investors. In terms of announced projects, the GCC outranks all other regional investors, but in terms of real FDI in the region has generally been easily out-stripped by the EU.[26]

Iran: Some unusual business

Iran fits uncomfortably into this predominantly Arab region, primarily due to mistrust of its political motives. Iran has not been invited, nor has it sought to be included, in most significant trade agreements within the region. However, recent years have seen an enormous GCC trade surplus in relation to Iran, primarily due to the effects of EU sanctions. From 2000 to 2007 Iran-GCC trade increased five-fold from $1.71 billion to $8.71 billion.[27] Despite recent tensions over its nuclear programme, Iranian funding of militant Shia groups in the region, a territorial dispute with the UAE over the Abu Musa/Tunbs islands and noises over the sovereignty of Bahrain, the GCC enjoyed a $5.7 billion trade surplus with Iran in 2007, with the UAE accounting for 72 per cent of this, clearly separating its political interests from that of trade. There are currently 450,000 Iranians living in the UAE alone and approximately 10,000 Iranian firms operate out of the country.[28] Oman, Kuwait and Bahrain have also signed extensive gas agreements with Iran to offset a looming shortage in their domestic markets.

The Gulf emirates are keenly aware of the economic benefits of a pragmatic relationship with Iran and it is obvious that the 5 smaller GCC states enjoy such a relationship with the country. Saudi Arabia meanwhile perceives itself to be in a strategic contest with Iran in the Persian Gulf and political rancour has greatly affected trade between the two countries. One GCC member state, Qatar, appears to have moved beyond mere pragmatism towards favouring a strong political working relationship with Iran in the region. Qatari ties with Hizbullah in Lebanon and Zaydi Shia rebels in Yemen have not been viewed favourably by many other Arab countries in the region, not least Saudi Arabia and Egypt.[29]

25 Mahmoud Mohieldin (2008). «Neighbourly Investments». *Op. Cit.*

26 Benedict de Saint-Laurent (2009). «The Mediterranean: Opportunities to develop EU-GCC relations». ANIMA Paper delivered at a seminar organised by the Istituto Affari Internazionali, Rome, 11 December.

27 Nader Habibi (2008). «Can Iran-GCC Economic Ties Survive US Pressure?», *Middle East Times*, 23 July 2008.

28 Cf. «Iran, UAE ink accord despite islands dispute». *Agence France Presse,* 30 October 2008.

29 Marina Ottaway and Mohammed Herzallah (2008). *The New Arab Diplomacy: Not with the US and Not against the US.* Washington DC: Carnegie Papers.

Labour movement/remittances

The GCC economy is heavily dependent upon the almost 15 million migrants who make up the majority of the workforce. Yet whereas Arabs made up 72 per cent of foreign workers in the region in 1975, by 2004 this figure had plummeted to 32 per cent, in favour of recruiting cheaper labour from South and East Asia.[30] Furthermore, the original advantages of a foreign Arab workforce – linguistic and cultural ties– came to be perceived as a potential political threat to the stability of the GCC monarchies. The GCC feared the influx of revolutionary Marxist and Islamist tendencies from other countries and the perceived ambiguous or unsupportive position taken by the leaderships of Palestine and Yemen after the invasion of Kuwait in 1990 prompted the mass deportation of these nationals by GCC states. Saudi Arabia alone deported 800,000 Yemenis, a disastrous blow to that country's economy from which it has arguably never recovered.

Although the proportion of expatriate Arab workers in the Gulf has declined considerably since the 1970s and 1980s, remittances to other Arab countries remain a vital source of income, totalling $31 billion in 2008. The MENA region mainly relies on two regions, the GCC and the EU, as a source of remittances. The Maghreb countries, with the exception of Egypt, are more dependent on remittances from the EU than the GCC.[31] However, Egypt and some Mashreq countries are still heavily dependent upon remittances from the GCC. Up to 400,000 Lebanese currently reside in the Gulf region, playing a vital role in the private sector there as well as advising local leaders. More than half of remittances from the Gulf are sent to one country, Lebanon, while an estimated 60-70 per cent of total remittances to Jordan originate from the GCC.

There has been a remarkable growth in remittances over the last five years from the GCC to other MENA countries, reaching $24.7 billion for 2006. Much of the labour demand from the non-GCC MENA has shifted towards more technical occupations, which explains why a well-educated Lebanese workforce topped the list of remittances. University graduates there as well as in Jordan and Egypt face a severe shortage of employment in their home countries and have looked instead to the economic diversification projects of the GCC for professional opportunities. However, given the downturn in the global economy, this growth in employment of skilled non-GCC Arabs is likely to stagnate somewhat, as GCC states intensify campaigns to reduce unemployment among their own citizens.

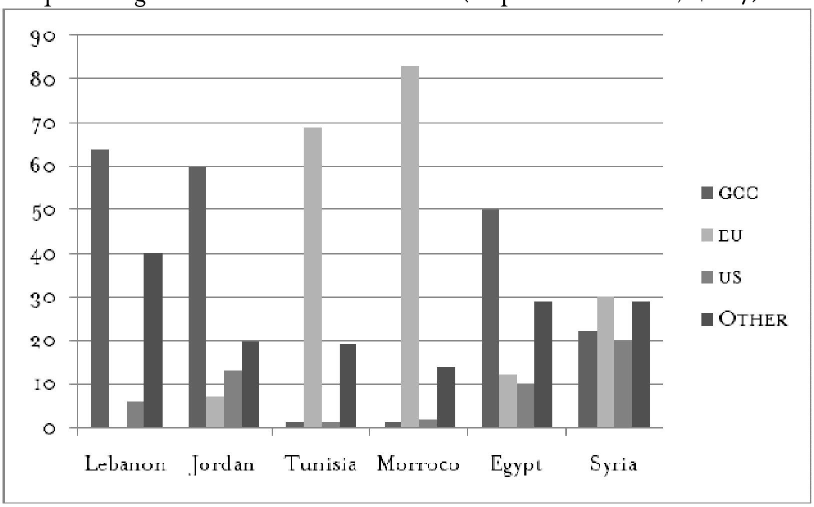
Egypt and Morocco receive the highest volume of remittances in the MENA region. However, as a share of GDP for countries in the region, Lebanon ranks highest with 20 per cent, followed by Jordan at 14 per cent, and Morocco at

30 Andrjez Kapiszewski (2006). *Arab versus Asian migrant workers in the GCC countries*. New York: United Nations Expert Group Meeting on International Migration and Development in the Arab region, pp. 6-8.

31 International Monetary Fund (2009). *World Economic and Financial Surveys, Regional Economic Outlook Middle East and Central Asia*, May 2009. Washington DC: International Monetary Fund.

8 per cent.[32] Lower trends of Syrian migration to the Gulf and the correspondingly reduced level of remittances suggest that the close political ties developed between some countries, such as Jordan, and the GCC have yielded positive results in terms of the hiring of these countries' nationals. The experience of Yemen serves as a salient if unarticulated warning to other Arab countries not to find themselves at odds with the Gulf countries during a critical period in the future.

Graph 1: Regional shares for remittances (In per cent of total, 2007)



Source: IMF World Economic and Finance Survey, Regional Economic Outlook Middle East and Central Asia, May 2009.

GCC development assistance to the MENA

Most MENA countries remain heavily aid-dependent due to poor governance standards, rapidly increasing populations and the frequency of war in the region, not least in Iraq, Palestine, Lebanon and Yemen. The GCC member states are long-standing, if discreet donors: one study has concluded that between 1974 and 1994, the GCC provided 13.5 per cent of global assistance and today Saudi Arabia is one of the world's largest bi-lateral donors.[33] This declined to approximately 1.5 per cent in 1994 but still far outstripped the 0.3 per cent given by DAC[34] countries, before rising again in tandem with recent high oil prices.[35] Saudi Arabia claims that its global development assistance is second only to the US and that from 1972-2002 the Kingdom provided $76 billion of aid, representing

32 *Ibídem*.

33 Espen Villanger (2007). *Arab Foreign Aid: Disbursement patterns, aid policies and motives*. Oslo: CMI, p. 1.

34 DAC (Development Assistance Committee) refers to Donors who are member states of the OECD.

35 Espen Villanger (2007). *Arab Foreign Aid: Disbursement patterns, aid policies and motives*. *Op. Cit.* p. 3.

about 4 per cent of total GDP.[36] These figures are contentious however, depending on which criteria are applied to define development assistance –GCC assistance is often channelled through investment agencies.

Aid to parties in countries such as Lebanon, Palestine and Yemen from Saudi Arabia aimed at reducing Iran's influence in the region follows a pattern that saw the quadrupling of aid from the GCC in 1990 in order to secure support against Iraq following the invasion of Kuwait. However, because the governments of the GCC play such a significant role in FDI, it is difficult to separate political, humanitarian and economic interests with regard to Gulf investment in other Arab countries, although in the case of Palestine and Yemen, the prospects for commercial gain appear to much more limited than in the case of Lebanon for example. Moreover the blurring of lines between aid and investment makes it difficult to accurately quantify the extent of genuine aid as opposed to commercial interests.

There is an obvious and growing trend of MENA dependence on aid from the Gulf region. A paucity of data on aid from GCC countries hinders definitive conclusions, but there are grave doubts about the effectiveness of such assistance, not least due to a pronounced lack of donor coordination and monitoring. In the case of Yemen, which receives the majority of its development assistance from the GCC countries, this aid is frequently not channelled through the Donor Harmonisation Unit at the Ministry of Planning and International Cooperation (MOPIC) but goes directly to the President's office or another Ministry. Consequently Gulf donors' funds are uncoordinated and ineffectively monitored by both the donor and the recipient country, giving rise to suspicions that much of the funding is lost due to negligence and/or corruption.[37]

GCC member states' aid is predominantly distributed bilaterally rather than through multilateral channels. The main multilateral institutions in the region are the Arab Fund for Economic and Social Development (Arab Fund), the OPEC Fund for International Development (OPEC Fund), the Arab Monetary Fund (AMF) and the Islamic Development Bank (IDB). Of these, the IDB distributes the largest amount of Arab multilateral assistance in the region, providing 38 per cent for the region compared to 30 per cent for the Arab Fund, 17 per cent for the AMF and 10 per cent for the OPEC Fund. The Saudi Fund for Development operates almost exclusively in the form of bi-lateral loans from a capital base of $8.2 billion.[38] The Kuwait Fund for Arab Economic Development also provides similar loans to recipient governments. In total the Kuwait Fund has provided 17 per cent of Arab financial aid during the last 30 years, compared to 4 per

36 Statement by HE Osama bin Ja'afar Faqeeh, Minister of Commerce at the World Summit for Sustainable Development, Johannesburg, 3 September 2002. Accessed at http://www.un.org/events/wssd/statements/saudiaE.htm

37 Interviews, Sana'a, August 2008 and September 2009.

38 See the website of the Saudi Fund for Development: http://www.sfd.gov.sa/

cent of the Abu Dhabi Fund for Arab Development.[39] The Saudi Fund allocates half its budget to Arab countries, similar to that of the Kuwait Fund but less than the 79 per cent distributed to Arab recipients by the Abu Dhabi Fund. The OPEC Fund by contrast concentrates its $3.5 billion capital on projects in sub-Saharan Africa, contributing only 17 per cent of its annual budget to the MENA region.[40] The GCC member state Development Funds that provide loans and other forms of assistance generally do not maintain an in-country team to monitor the use of funds and there are few reporting obligations on the part of the recipient country. Yet there are emerging exceptions: Innovative Gulf development organisations such as «Dubai Cares» have already gained a reputation for practical fieldwork and close monitoring of projects and may offer a useful template for other emerging Gulf development agencies as well as a potential donor partner for OECD DAC[41] countries.

The shortcomings of education in the MENA are a critical factor affecting the region's political and economic development. The massive investment by the GCC states in educational reform is an acknowledgement of the need to swiftly address this deficit. Such investment for the region is desperately needed: not one MENA university features among The Times of London's index of the top 200 universities in the world. Encouraging signs have been the establishment of the Abu Dhabi Centre for Executive Education and Research, which opened in 2007 and aims to develop educational strategies for the MENA region. In that same year the Sheikh Mohammed bin Rashid al-Maktoum Foundation donated $10 billion towards supporting the education of young Arabs in the region. In a remarkably frank statement, Sheikh Mohammed acknowledged the scale of the problem facing the region, citing the «wide knowledge gap between us and the developed world in the West and in Asia».[42] Access to GCC universities with a focus on technical innovation and excellence is critical to the development of the wider MENA region. However, it remains to be seen whether the Foundation will put in place the structure and personnel to realise the ambitious objectives of Sheikh Mohammed. Meanwhile a «root and branch» reform of the region's secondary level education, including the provision of funds for teacher training, is also urgently required, something which the GCC has yet to show leadership on.[43]

Saudi Arabia's leadership of the Arab world

The long decline and traumatic implosion of Iraq, the isolation of Egypt following its recognition of Israel, and suspicions over Syria's relations with Iran

39 Espen Villanger (2007). *Arab Foreign Aid: Disbursement patterns, aid policies and motives*. *Op. Cit.* p. 9.

40 See the website of the OPEC Fund: http://www.ofid.org/

41 Development Assistance Committee.

42 Narayanappa Janardhan (2008). *Economic diversification and knowledge economy in the Gulf.* Paper presented at the Gulf Studies conference, The University of Exeter, 1-4 July 2008.

43 Cf. «Restive young a matter of national security», *The Financial Times,* 2 June 2008.

and Hizbullah, combined with the poor economic performance of all three countries until recently has resulted in the rise of Saudi Arabia as the most influential country in the Arab world. The increased economic clout of Riyadh has significant repercussions for the foreign relations of countries in the region. Signs of this expanded reach are readily apparent. The careful attention paid by Morocco to an alleged slight to Bahrain by a senior Iranian official in 2009, leading to the severing of diplomatic relations between Rabat and Tehran, played particularly well in Riyadh at a time when Saudi investments in the country were under consideration following the global economic downturn.[44]

Saudi Arabia's growing diplomatic prestige was clearly demonstrated through the 2002 Arab Peace Initiative, which promised universal Arab recognition and normal ties with Israel in exchange for the establishment of a Palestinian state along the 1967 borders. This agreement was ultimately rejected by the Israelis but hailed throughout the region and beyond as a major offering from the Arab states. It was followed in 2007 by the Saudi-brokered Mecca Agreement between Fatah and Hamas. The resourceful mediation tactic of bringing both sides to the holy city of Mecca to negotiate a power-sharing government was augmented by a Saudi promise of extensive development assistance to Palestine.[45] Ultimately however the agreement collapsed under US pressure and internal Palestinian discord.

Perhaps with the failure of Mecca in mind, Prince Saud al-Faisal, Saudi Arabia's Foreign Minister, has consistently trumpeted the need for the Arab world not to rely upon the US to broker peace in the Middle East. Such an empowered, independent Arab role on the world stage has met the approval of King Abdullah but may not endure after his death. Yet Saudi Arabia has been slow to follow up its Mecca mediation with an intensive effort to renew dialogue between the Palestinian parties and reduce Iranian influence in Gaza following the election of Obama, whose administration is more sympathetic to a «Mecca II». The occasionally sluggish reaction of Riyadh to regional events is perhaps indicative of the weak capacity of the Saudi Foreign Ministry, which is severely limited by appointments made due to royal favour rather than merit. Saudi Arabia has also been predominantly reactive in its approach to dealing with mounting insurgencies and a terrorist threat emanating from Yemen. Ideological intransigence has also played a role in reducing Saudi Arabia's impact regionally: the refusal to engage in a meaningful way with any of the Shia Islamist parties in Iraq and the delay in nominating an Ambassador to Baghdad resulted in Saudi Arabia effectively opting out of trying to steer the Iraqi government away from Iranian influence, to the great frustration of more nationalist Iraqi Shia politicians.[46] Saudi Arabia has generally found itself strategically out-manoeuvred by Iran, which has established a strong influence in

44 Cf. «Iran says Morocco's move to cut ties harms Islamic unity». *Reuters,* 7 March 2009.

45 Cf. «Analysis: What was achieved in Mecca?», *BBC News,* 9 February 2007.

46 *Al-Sharq al-Awsat*, 26 April 2009.

Palestine through the development of ties with Hamas. Although Saudi Arabia is deeply suspicious of Qatar's mediatory role in the region, the Doha Accords negotiated in 2008 between Lebanon's main factions have allowed Riyadh to move to re-orientate Syria away from its alliance with Iran; a belated move to recover the regional initiative from Tehran.

The curious case of Qatar

Qataris may account for only 350,000 of the MENA's population, but their country boasts one of the highest per capita GDPs in the world. Both its small size and enormous wealth, derived from possessing the third largest gas reserves in the world, have been key to the country's unique brand of foreign policy. Qatari Prime Minister Sheikh Hamad bin Jassim bin Jaber al-Thani clearly enjoys the international stage and Qatari officials claim that they have «chosen the model of a non-aligned state or an active humanitarian one such as Norway or Denmark».[47] Qatari foreign policy is indeed enigmatically open. Until the crisis in Gaza in December 2008 finally severed relations, Israel maintained a trade mission near to a villa owned by Hamas leader Khaled Meshaal.[48]

Although Qatar has been lauded by some activists as a haven for outspoken media such as al-Jazeera, some Arab states such as Saudi Arabia have complained that coverage by al-Jazeera mirrors the meddlesome attitude of the Qatari government. During a low ebb in Doha-Riyadh relations the Saudi government moved to expel the channel's correspondents and recalled their ambassador from Doha. Other governments in the region have also not differentiated al-Jazeera from the Qatari government: Iraq, Jordan and Tunisia have all recalled ambassadors due to negative coverage of their respective governments. Egypt denounced Qatar for using its economic largesse as political leverage, with one government-controlled newspaper slamming the Qatari government as «a Trojan horse through which Israel is infiltrating the Arab world».[49]

Qatar's greatest success in regional diplomacy has undoubtedly been the Doha Accords in 2008, which brought an end to the precarious constitutional deadlock in Lebanon since the withdrawal of the March 8th opposition coalition from government in 2006. Qatar conspicuously used its considerable wealth as leverage, providing over $1 billion in aid to Lebanon. Agreement with Hizbullah on reconstruction assistance to Lebanon was an important milestone in bringing the Lebanese opposition in from the cold. Qatar's close political and trade relations with Tehran also facilitated its mediation in Lebanon, although Prime Minister Sheikh Hamad raised eyebrows by hosting President Ahmadinejad at the GCC summit in December 2007 and warning the US not to lecture the GCC on its rela-

47 Cf. «Energetic country exerts its influence», *The Financial Times,* 9 December 2008.

48 *Ibídem.*

49 Cf. «Qatar is a Trojan horse that harms Arab interests», *Al-Gumhouriya,* 15 June 2008.

tions with Iran.[50] Qatar's investments in Syria –including a $350m tourist complex in 2007– and its refusal to join Saudi Arabia, the UAE and Kuwait in offering to fund the UN-led Hariri tribunal also gave it more influence in persuading Damascus to back the agreement.

Since the collapse of the Mecca Agreement, Qatar has infuriated US officials by providing essential economic support to Hamas. However, Sheikh Hamad was thwarted by Egypt and Saudi Arabia in calling for a Qatari hosted summit to discuss the Gaza crisis in January 2009 and in a calculated swipe at Qatar's strong relations with Iran, Egyptian Foreign Minister Ahmed Aboul Gheit claimed that such a summit would undermine «Arab action».[51] In Yemen, Qatar pushed the government of President Ali Abdullah Saleh to agree a truce with Shia Zaydi rebels in the north of the country, dispatching 12 officers from the Qatari military during 2007/2008 to lead mediation efforts in the north of the country.[52] The process was derailed on several occasions before a final effort in the summer of 2008 succeeded in brokering a ceasefire. However Saudi irritation over the presence of a Shia militant group on its southern border and suspicions over alleged links between the insurgency and Iran contributed to the collapse of this ceasefire in July 2009. Although Qatari investment in Yemen during 2007 and 2008 was critical in securing leverage to mediate an eventual ceasefire, increasing Saudi and Yemeni reservations regarding Doha's mediation efforts mean that a renewed Qatari role is unlikely in the near future.

Qatari mediation in Darfur, although periodically successful in reducing tensions, has also been viewed with suspicion by the parties and neighbouring countries, despite effusive praise from some UN and European officials.[53] Rebel groups have been wary of a Qatari role due to close ties between Doha and the Sudanese regime, which includes military cooperation and a multi-million dollar investment in a housing complex near Khartoum.[54] Ethiopia has gone so far as to accuse Qatar of being «one of the most important supporters of terrorism and extremism in our sub-region», alleging financing for violent Islamist groups in the Ethiopian north-eastern region of Ogaden, Somalia and playing a biased role in Sudan. Subsequently Addis Ababa severed diplomatic relations with Qatar in early 2008.[55] Qatar's surge to diplomatic prominence has left other Arab countries unsure as to whether Qatar is an emerging Switzerland for the region or an

50 Cf. «Ahmadinejad to attend GCC Summit», *The Daily Star,* 3 December 2007.

51 Cf. «Egypt attacks Iran and allies in Arab world», *Reuters,* 28 January 2009.

52 Interviews, Sana'a, August 2008.

53 UK Foreign and Commonwealth Office (FCO) (2009). *Qatari Foreign Minister al-Mahmoud.* London: FCO, 28 January 2009; and «UN hails Qatar's bid for peace in Darfur», *The Peninsula,* 14 October 2008.

54 Cf. «Qatar, Sudan review co-operation ties in military areas», *Qatar News Agency,* 20 October 2008 and «Qatar, playing all sides, is a non-stop mediator». *The New York Times,* 9 July 2008.

55 Cf. «Ethiopia accuses Qatar of terrorist funding and severs ties», *Panapress,* 21 April 2008.

unfit maverick with suspiciously close ties to Tehran.

Conclusion: Avoiding catastrophe

Although the blow to the GCC by the global financial crisis was cushioned by the massive surpluses accumulated during the recent period of soaring oil prices, the losses accrued during the latter part of 2008 were staggering. The Kuwaiti government estimated in January 2009 that $2.5 trillion dollars had been lost by Arab countries during the last four months of 2008.[56] The most diversified economies have been hit hardest –in 2009 amid scenes of global panic and confusion Dubai was forced to turn to the Federal Government in Abu Dhabi to bail it out of trouble and in Kuwait the plummeting stocks of the Gulf Bank forced the government to temporarily suspend trading on its stock exchange. Oman is particularly vulnerable to the crisis with soaring levels of unemployment and a rising debt problem: according to Omani officials it may yet have to turn to its neighbours for a heavy bail out in the future.[57] Qatar has weathered the crisis better than most, with its gas exports proving more resilient to the global downturn. A recovery of oil prices in 2010 also helped to off-set the worst of the initial shock of the financial crisis.

Politically the GCC states have shown great promise but little resolve in easing tensions in the region. On Iraq and Iran the GCC has failed to move beyond rhetoric to build a united front aimed at reducing tensions in relations with both countries. Saudi Arabia has generally snubbed Qatar in its efforts to broker a working relationship with Iran and views its mediation efforts, particularly in Lebanon and Yemen, with a strong degree of scepticism. The GCC has been caught flat-footed with regard to a mounting terrorist threat from Yemen as well as the Shia Zaydi insurgency in the north of the country which has spilled over into Saudi Arabia, causing the death of just under 100 Saudi soldiers by the end of 2009.[58] This regional rivalry and the more pragmatic approach of the other smaller GCC member states to their relations with Iran has left the GCC effectively «opting out» of a common position. Opportunities in Iraq have been squandered due to hostility to a predominantly Shia government, thereby ceding the initiative to Iran. The inability to wean Hamas away from Iranian support also demonstrates the limitations of Saudi Arabia to thwart Iranian interests in a predominantly Sunni Arab region, hindered by its strong relationship with the United States and an occasionally laboured response to events that mirrors the byzantine workings of its own government. The GCC countries complained bitterly of not being consulted by the EU over the Union of the Mediterranean, but have not offered the Maghreb or Mashreq countries any equivalent structure in which to frame their

56 Simon Webb and Daliah Merzaban (2009). «Gulf Producers loath to dig deep into reserves». *Reuters,* 19 January 2009.

57 Cf. «Oman to record budget deficit of $2.1 billion on oil price fall», *Khaleej Times,* 2 January 2009.

58 Cf. «Saudi: 82 soldiers killed fighting Yemeni rebels», *Associated Press,* 12 January 2010.

relations with the Gulf.[59] The GCC member states tend to be reactive to regional and international events, lacking the capacity and political coherence to offer new models of engagement for the region.

At home the GCC must strengthen its capacity to deliver political and economic solutions within the region. This will require systematic reform of Foreign Ministries and the strengthening of national and multilateral instruments to effectively deliver development assistance within the MENA region. Empowering the GCC Secretariat to undertake assistance programmes in the region is also long overdue –the failure to prepare Yemen's institutions to enable its accession to the GCC as a member state points to the need for increasing the organisation's institutional capacity.

The GCC should recognise that it is in its own interests to provide MENA countries with the benefits of the Gulf experience in stimulating the growth of the private sector. This will require moving away from merely facilitating loans and grants in the region towards the type of in-country development assistance programmes that GCC countries have in the past rejected as being too intrusive. Yet financial resources, recent experiences of diversification and linguistic/cultural ties place the GCC in a uniquely stronger position than traditional Western donors in the region to lead economic reform in the region.

The GCC faces its own population pressures and grievances regarding the employment of non-nationals. The governments of the MENA will have to at least come close to creating 80 million new jobs by 2020 to avoid severe political and social upheaval in an already combustible regional environment.[60] It is not in the strategic interests of the GCC to retreat within itself, nor in the current economic climate do sufficient financial resources exist to continue bailing out failing Arab regimes indefinitely. The only alternative is for a much smarter strategic Gulf engagement with the rest of the MENA region, one that stimulates prospects for private sector growth, draws upon its educated youth and ultimately reduces dependence upon donor handouts and remittances.

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59 Remarks by Prince Turki bin Faisal al-Saud to the Eurogolfe conference, Venice, 17 October 2008.

60 Lionel Barber (2008). «Restive young a matter of national security», *The Financial Times,* 2 June 2008.

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ABSTRACT
The Gulf has emerged as the new leading player in the Arab world in the 21st century. However, the crisis has dealt a serious blow to the region's economy and the prospects of integration. The Gulf Cooperation Council (GCC) is undoubtedly the only part of the Middle East with the resources to mitigate rising political and economic pressures that afflict the region through increased and more efficient allocation of development funds and investments to foster job creation. To succeed, Gulf donors need completely to rethink their engagement in the region, moving away from merely facilitating loans and grants towards in country development assistance programmes.

KEYWORDS
Strategic influence, MENA, Gulf, GCC.

RESUMEN
El mundo árabe tiene un nuevo líder para el siglo XXI: los Estados del Golfo. Sin embargo, la crisis ha supuesto un duro revés para la economía y las perspectivas de integración de la región. El Consejo de Cooperación del Golfo (CCG) es el único actor con recursos suficientes para mitigar las crecientes presiones políticas y económicas que afectan a la región, ya sea aumentando o distribuyendo mejor la ayuda al desarrollo y las inversiones para fomentar la creación de empleo. Los donantes del Golfo deberían revisar sus políticas de cooperación, y más allá de otorgar préstamos y subvenciones, comenzar a implementar programas nacionales de asistencia al desarrollo.

PALABRAS CLAVE
Influencia estratégica, MENA, Golfo, CCG.

الملخص
تحتلّ دول الخليج في القرن الواحد و العشرين دور الزعامة الجديدة في العالم العربي. لكن، مع ذلك، فقد شكّلت الأزمة الحالية ضربة قوية لإقتصاد و آفاق الإندماج في منطقة الخليج. إلا أن مجلس التعاون الخليجي هو الفاعل الوحيد الذي يتوفّر على الموارد الكافيّة القادرة على تخفيف الضغط السياسي و الإقتصادي المتصاعد الذي تتعرّض له المنطقة، و ذلك سواء من خلال رفع قيمة المساعدات الموجّهة للتنمية و الإستثمارات لتشجيع خلق مناصب شغل جديدة أو من خلال توزيع أفضل لها. و يتعيّن على المانحين الخليجيين مراجعة سياساتهم في مجال التعاون بالشروع في تنفيذ برامج وطنية لدعم التنمية بدل الإقتصار على منح القروض و الإعانات.

الكلمات المفتاحية
النفوذ الإستراتيجي، مجموعة الشرق الأوسط و شمال إفريقيا، الخليج، مجلس التعاون الخليجي.