

NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

**THE ARAB GULF COOPERATION COUNCIL (AGCC)
ECONOMIC INTEGRATION AND FUTURE
RECOMMENDATION**

by

Khalifa D. Al-binali

December 2000

Thesis Advisor:
Associate Advisor:

Robert E. Looney
Roger D. Evered

Approved for public release; distribution is unlimited.

DTIC QUALITY INSPECTED 4

20010215 015

REPORT DOCUMENTATION PAGE			Form Approved OMB No. 0704-0188	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.				
1. AGENCY USE ONLY (Leave blank)		2. REPORT DATE December 2000		3. REPORT TYPE AND DATES COVERED Master's Thesis
4. TITLE AND SUBTITLE: The Arab Gulf Cooperation Council (AGCC) Economic and Future Recommendations			5. FUNDING NUMBERS	
6. AUTHOR (S) Al-binali, Khalifa D.				
7. PERFORMING ORGANIZATION NAME (S) AND ADDRESS (ES) Naval Postgraduate School Monterey, CA 93943-5000			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING / MONITORING AGENCY NAME (S) AND ADDRESS (ES)			10. SPONSORING/ MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES the views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.				
12a. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution is unlimited.			12b. DISTRIBUTION CODE	
13. ABSTRACT (<i>maximum 200 words</i>). This thesis discusses the historical events that lead to the establishment of the AGCC organization and analyzes the cooperation of the AGCC countries in politics, security, economy, as well as defense spending at lower life cycle cost. U.S. foreign military sales (FMS) are a good tool to facilitate the arms trades between the U.S. and the AGCC countries. The thesis discuss threats to the region and AGCC relations with the west. This thesis also discusses the economies of the AGCC countries and indicates that the AGCC countries are still largely oil-based economies. Moreover, the economic characteristics of these countries indicate that they are not ready at their current stage to form a full monetary union. However, these countries are economically qualified for several forms of partial monetary integration, such as an exchange rate coordination arrangement, capital market integration. Also, the thesis suggests additional economic diversification programs are needed and essential to enhance the development of sustainable economies. Finally, this thesis provides recommendations for exchange rate unification and monetary integration among the AGCC countries to strengthen and move the AGCC forward in the future.				
14. SUBJECT TERMS AGCC Security, Political system, Foreign Military Sales, Economic Integration and Future Recommendation			15. NUMBER OF PAGES 83	
			16. PRICE CODE	
17. SECURITY CLASSIFI- CATION OF REPORT Unclassified	18. SECURITY CLASSIFI- CATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFI- CATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UL	

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)
Prescribed by ANSI Std. Z39-18 298-102

THIS PAGE INTENTIONALLY LEFT BLANK

Approved for public release; distribution is unlimited.

**THE ARAB GULF COOPERATION COUNCIL (AGCC) ECONOMIC
INTEGRATION AND FUTURE RECOMMENDATION**

Khalifa D. Albinali
Major, Bahrain Defense Force
Graduate of Aeronautical Engineering (Perth) U.K., 1985

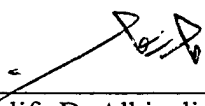
Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

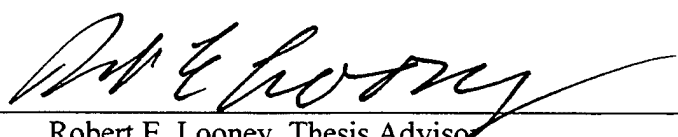
from the

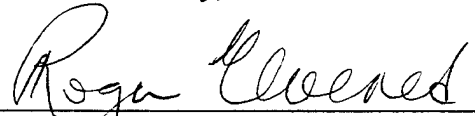
**NAVAL POSTGRADUATE SCHOOL
December 2000**

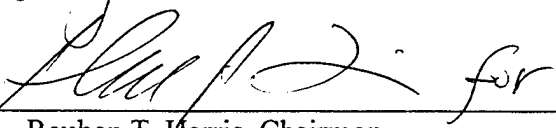
Author:


Khalifa D. Albinali

Approved by:


Robert E. Looney, Thesis Advisor


Roger D. Evered, Associate Advisor

 for
Reuben T. Harris, Chairman
Department of Systems Management

THIS PAGE INTENTIONALLY LEFT BLANK

ABSTRACT

This thesis discusses the historical events that lead to the establishment of the AGCC organization and analyzes the cooperation of the AGCC countries in politics, security, economy, as well as defense spending at lower life cycle cost. U.S foreign military sales (FMS) are a good tool to facilitate the arms trades between the U.S and the AGCC countries. The thesis discuss the external and internal threats to the region and the AGCC relations with the west. The AGCC countries must enhance the existing Shield Force and maintain its alliance with the West.

This thesis also discusses the economies of the AGCC countries and indicates that the AGCC countries are still largely oil-based economies. Moreover, the economic characteristics of these countries indicate that they are not ready at their current stage to form a full monetary union. However, these countries are economically qualified for several forms of partial monetary integration, such as an exchange rate coordination arrangement, capital market integration. Also, the thesis suggests additional economic diversification programs are needed and essential to enhance the development of sustainable economies. Finally, this thesis provides recommendations for exchange rate unification and monetary integration among the AGCC countries to strengthen and move the AGCC forward in the future.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	OBJECTIVES	2
B.	RESEARCH QUESTIONS	2
C.	RESEARCH SCOPE	3
D.	METHODOLOGY	4
E.	ORGANIZATION OF STUDY.....	4
II.	THE POLITICAL SYSTEM	7
A.	MAIN FEATURES OF THE POLITICAL SYSTEMS	7
B.	THE POLITICAL ENVIRONMENT OF THE AGCC.....	10
III.	SECURITY	15
A.	THE IRAN-IRAQ WAR, 1980-88	16
B.	THE GULF WAR, 1990-1991.....	17
C.	THREATS FACING THE ARAB GULF COOPERATION COUNCIL ...	19
1.	The Iranian Threat.....	19
a.	The Arms Race	19
b.	Border Tensions	20
2.	The Iraqi Threat	22
a.	The Arms Race	24
b.	Border Tensions	24
3.	Internal Threat.....	25
a.	Oil Stagnation	26
b.	Border tensions	27
c.	Other Internal Threats	28
D.	SECURITY ASSISTANCE.....	29
1.	History Of The U.S. Security Assistance.....	29
2.	Foreign Military Sales (FMS).....	31
3.	Benefits From Operation Desert Storm	32
a.	National Sovereignty	33
b.	Oil Supply Security	34
IV.	ECONOMIC AND MONETARY EXCHANGE RATE UNION.....	35

A.	THE CHARTER AND THE UNIFIED ECONOMIC AGREEMENT OF THE AGCC.....	37
1.	The Supreme Council	37
2.	The Ministerial Council	38
3.	The Secretariat General.....	38
B.	THE ECONOMIES OF THE AGCC COUNTRIES	40
1.	The Oil Boom Stage.....	41
2.	The Economic Recession and Deficit Stage	42
C.	AGCC FOREIGN TRADE.....	47
D.	BACKGROUND REVIEW ON EXCHANGE RATE REGIMES AND THE CURRENCIES OF THE AGCC COUNTRIES	49
E.	MAJOR ASPECTS OF ECONOMIC COOPERATION AND THE MAIN OBSTACLES FACING THE AGCC COUNTRIES	56
1.	Different Subsidies Structure.....	59
2.	The Slow Growth of the AGCC Trade and the Absence of a Common External Tariff Structure	60
V.	CONCLUSIONS AND RECOMMENDATION	69
A.	CONCLUSIONS.....	69
B.	RECOMMENDATION	71
	APPENDIX A. THE ARAB GULF COOPERATION COUNCIL	77
	APPENDIX B. THE UNIFIED ECONOMIC AGREEMENT	87
	APPENDIX C. TABLES ON THE ECONOMIES	95
	LIST OF REFERENCES.....	107
	INITIAL DISTRIBUTION LIST	109

ACRONYMS

OPEC	Organization of petroleum Exporting Countries
UEA	Unified Economic Agreement
EMS	European Monterey System
GDP	Gross Domestic Product
SDR	Special Drawing Rights
BD	Bahrain Dinar
KD	Kuwaiti Dinar
OR	Oman Riyal
SOR	Saudi Oman Riyal
QDR	Qatar Dubai Riyal
DH	Emirate Durham
ALBA	Aluminum Bahrain
SABIC	Saudi Arabia Basic Industries Corporation
BANOCO	Bahrain National Oil Company
PIC	Petrochemical Industries Corporation
AISCO	Arab Iron Steel Company
GARMCO	Gulf Aluminum Rolling Mill Company
GIB	Gulf International Bank
ABC	Arab Banking Corporation
GIC	Gulf Investment Corporation

THIS PAGE INTENTIONALLY LEFT BLANK

ACKNOWLEDGEMENT

I would like to thank my country for giving me the extraordinary opportunity to attend the Naval Postgraduate School. I would also like to thank Professor Robert E. Looney for supporting and overseeing my research of this topic, and Professor Roger Evered for providing me with his sage wisdom and advance during my times of confusion.

THIS PAGE INTENTIONALLY LEFT BLANK

I. INTRODUCTION

The main idea behind the establishment of the AGCC countries was to provide six Arab oil-producing countries with a formal security arrangement through their cooperation in the political and military fields. However, this idea, or framework, for cooperation among these countries was later expanded to include all other fields and was seriously considered for the first time on February 4, 1981. On that date, the six countries decided to establish a cooperation council in order to coordinate, integrate, and establish close ties among them in a solid economic, social and political unity and stability. These countries, which are located in the Arab Gulf region, are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates, bound together and formed a regional organization called "The Arab Gulf Cooperation Council" (AGCC). These countries have an estimated combined population of about 20 million and a land area of about 2,653,000 square kilometers. On May 25, 1981, the rulers of these countries signed the official agreement, known as "the Unified Economic Agreement." In this agreement, the countries started a new chapter in their modern history that they hope will result in future benefits, especially at the economic and social levels. So far, and compared to previous attempts of economic and political integration by other groups in the Arab world, the AGCC seems to be the most enduring and promising experience of all. But the road to establishing a full economic or political union among the AGCC member countries is a long one and still has many obstacles. For example, intra-AGCC trade seems to be growing at a slow rate. Moreover, the economic coordination efforts and economic ties

that have been established over the last fourteen years indicate that the AGCC at its current stage may at best be described as a free trade area.

A. OBJECTIVES

The basic objectives of the AGCC are clearly to achieve cooperation among the member countries in all fields as a prelude to unity. Also to strengthen the links of cooperation among the people of the member countries in different fields. Moreover to establish similar systems among the member countries in all fields, including economics and finance, commerce, customs and communication, education and culture and legislation and administration. Also to stimulate scientific and technological progress in the fields of industry, mineralogy, agriculture, and marine and animal resources. Moreover, to establish common projects, and encourage the cooperation of the private sector for the common good of the people of the member countries. Also discussed, future changes to the dynamic Security program appear to be offer. The existing security assistance program between the U.S and the AGCC countries. The efficiency of the program will be analyzed and potential improvements identified that will benefit for both the U.S and the AGCC countries.

B. RESEARCH QUESTIONS

The primary research question is:

What are the future requirement for enhancing / developing AGCC countries?

Supporting questions include:

Why was the AGCC created?

What has actually been generated?

How effective has AGCC countries so far?

What are the benefits of AGCC?

How could Cooperative Co-production be implemented to improve the trade relation between the U.S. and the AGCC?

What are the benefits from operation desert storm?

C. RESEARCH SCOPE

The scope of this thesis will focus on the economic of the AGCC countries and shows that AGCC countries are still largely oil-based economies, the main purpose for establishing the AGCC, and proves that it was not created just as a defensive alliance as it is generally perceived in the West. The AGCC was formed for cooperation in all fields among its member countries. To demonstrate this fact, this thesis discusses the historical events that lead to the establishment of this organization and analyzes the cooperation of the member countries in the area of politics, security, economy, as well as the development of defense strategy to reach an efficient strategy that serves future defense requirement. One solution to obtain state- of art weapon systems with lower life cycle cost. U.S. foreign military sales (FMS) are a good tool to facilitate the arms trades between the U.S and the AGCC countries. Finally, the thesis provides general recommendation to strengthen the AGCC countries and move it forward in the future. Program from 1981 to the present. It will concentrate upon the effects that reform has had upon its benefit structure, eligibility requirements and financing.

It is beyond the scope of this thesis to predict exactly which, or how many, of the proposed methods of Security reform might actually be enacted into annual meeting. Only a presentation and discussion of the most publicized proposals will be offered.

It is also beyond the scope of this thesis to make recommendations to the current or future administrations as to which proposals would prove to be most beneficial, or which proposals should in fact be adopted.

D. METHODOLOGY

The methodology used in this thesis is to conduct a literature review on economy and policy aspect from archival research of books, as well as a literature search of books, magazine articles, newspaper articles, embassies, people and other library and information sources in order to provide appropriate frame of reference and information. This data and information will be developed conclusion.

E. ORGANIZATION OF STUDY

This thesis is written to provide wide prospective about the formation and the objectives of the AGCC, which is not limited to security cooperation. Therefore, in the second chapter, I will discuss the political cooperation, the formation and the roles of the AGCC countries. In the third chapter, I will address the security alliance by examining the internal and external threats and the collective AGCC countries defense plans. In the fourth chapter, I will examine the economic cooperation achievements and the defense spending of the AGCC. Acquisition systems were to reach an efficient strategy that serve future defense requirements. U.S foreign military sales (FMS) are a good tool to facilitate the arms trades between the U.S and the AGCC countries. Finally, the thesis seeks to

provide a conclusion of the main points discusses in various chapters, and provide recommendations to promote and enhance AGCC economic development.

THIS PAGE INTENTIONALLY LEFT BLANK

II. THE POLITICAL SYSTEM

A. MAIN FEATURES OF THE POLITICAL SYSTEMS

The Current political system of the AGCC countries is almost identical, they have similar historical backgrounds, and they share the same language, religion, and social beliefs and customs. The political systems of these countries are somewhat unique to them and are difficult to define in terms of the conventional political systems adopted by other countries in the rest of the world. Peterson [Ref.1: p.27] suggested that the political systems of the AGCC

Are most accurately described as traditional monarchies, in which governments are led by extended ruling families in informal but significant consultation with religious and other tribal components of society. These historical means of governance serve as the core of the Arab Gulf political systems, and the national institutions and bureaucracies that have arisen more recently have been grafted to them.

Specifically, an extended ruling family who came to power since the establishment of these countries governs each of these countries excepts the U.A.E. The ruler of each country is usually the head of the family or a member of the ruling family who has been selected by other members of the family. In the case of U.A.E., however, the ruler of the country is a member of one of the seven ruling families that govern the seven emirates of the U.A.E. he is appointed through consultation among the heads or the sheiks of the seven families. Therefore, there are no public elections or political parties in the AGCC countries and public participation in the governments of these countries is traditionally limited to consultation or advice to members of the ruling families. Predominant members of the ruling families of these countries, including the rulers,

usually have daily or weekly informal meetings with religious and tribal leaders, businessmen, and other citizens in order to discuss public issues and problems, as well as hear grievances and provide consultation on any matter of public concern. These meetings, which are open to the public, are known as the "majlis." However, during the last two decades, all the states started appointing an increasing number of private citizens, who are not a part of these ruling families, to key government positions in order to these ruling families, to key government positions in order to allow the public more participation in the political system. As a result of the recent public demand for more direct participation in the political systems, the current leaders or governments of almost all of these countries have authorized the creation or the reactivation of the previously suspended consultative or national assemblies in the other countries are usually appointed by the rulers of these countries. These members, of course, are not a part of the ruling families. [Ref.1: p.34]

The main features and similarities among the political systems of the AGCC countries that distinguish them from other political systems were summarized by Peterson [Ref.1: p.26] as follows:

First, the newly emergent governmental structures of the six Arab Gulf countries have involved from the Arab tribalism that has existed in the region for centuries despite persistent foreign occupation and designs. Second, although these countries have gained independence only recently, owing to a history of foreign occupation and influence, they represent in general a continuum of previous and long-established governing systems. Third, these systems are all vertically based and traditional authority structures led by ruling families and influenced heavily, first, by Islamic principles and practices and, then, by other deeply held social beliefs and codes. Fourth, the ruling systems continue to rely on time-tested methods of indirect public participation such as the majlis, though in the last 20 years efforts to involve other segments of the populations directly into the

governmental spheres have been undertaken. Fifth, they have shown a considerable ability to adapt to changing political and economic circumstances. Finally, these governments share a number of perceptions regarding foreign policy issues, including an ideological opposition to communism, adherence to free market principles and practices, and a desire to remove the region from foreign designs and potential conflict.

Independence came in 1961 for Kuwait and in 1971 for Bahrain, Qatar, and the United Arab Emirates. While the modern Kingdom of Saudi Arabia dates only from 1934 under that name. Oman has always been technically independent.

In examining the political system in the AGCC countries, it is clear that several essential conditions are present to enable the AGCC countries to form lasting political cooperation, which may lead to political integration in the future. I am encouraged by the fact that the Arabian Gulf region had witnessed two successful integrations in the past. The first one was the unification of the Saudi Arabia by the late king Abdullaziz, founder of the kingdom of modern Saudi Arabia; the second one was the unification of the seven Arab Emirates, now known as United Arab Emirates (U.A.E.). These two experiences encourage the prospects for political integration of the six Arab Gulf countries since the previous successful integration took place in the same region and among similar people.

[Ref.2: p.15]

Having said that, I am aware many things have changed in the region, which makes it different from the past two experiences. At present, total integration among sovereign countries in the area is extremely difficult to accomplish. Other types of integration such as economic integration seem to be easier to achieve, simply because the independent countries would not have to surrender their sovereignty, and that is why the AGCC countries focus their effort more at this stage on the economic and social

integration, which are essential for any political integration which must come at final stage of integration process. [Ref.2: p.16]

B. THE POLITICAL ENVIRONMENT OF THE AGCC

Each of the individual AGCC has different strategic needs and vulnerabilities. Saudia Arabia is the largest of the Gulf countries in terms of both geography and military forces and is the key to any successful effort at regional cooperation in defense. Yet, Saudi Arabia has a low ratio of forces for the space in its critical defensive area, particularly along its border with Iraq. It cannot create an effective defense without its neighbors.

Kuwait shares a common border with Iraq and is only a short distance from Iran. No foreseeable mix of Kuwait, AGCC countries, other Arab. Or U.S forces can offer Kuwait full security against another round of Iraq surprise attacks or surprise Iranian air, amphibious, and missile attack. Kuwait's small territory and population keep its military vulnerable, and the country also has massive oil and gas resources to protect the other smaller Gulf countries face more serious problems. They are spread along the coast of the southern Gulf. If any of these countries fell into hostile hands, it would be a major strategic springboard for intervention by Iran or IRAQ, or a constant threat to the internal security of its neighbors. A hostile air force are navy, based in the Gulf countries, could also make it far more difficult for other Arab countries or the U.S to project power into the region. [Ref.3: p.9]

The AGCC is a successful experience in the Arab world politics. It has been able to overcome many serious challenges in the region. The most serious one was the Iraq

invasion to one of its members (Kuwait) on August 2, 1990. It was a very difficult challenge and experience for the AGCC countries, because the full-scale attack came from another Arab country, which was unprecedented in the modern Arab history. However, the AGCC countries bound together and provided unlimited political, economic, military, social and emotional support to Kuwait. The forces of all the AGCC countries took active part in the liberation of Kuwait. Without the enormous support of the AGCC countries (especially Saudi Arabia), it would have been almost impossible for the coalition forces, lead by the U.S to liberate Kuwait. [Ref.2: p.16]

The invasion of Kuwait had a great impact on the social and the political system in the AGCC countries. The AGCC countries experienced and developed a new political approach, especially with relation between the government and their people. This experience led the political elites to rethink their approach to politics and seek more extensive domestic support and stronger foreign alliances. Also, the Gulf war provided the incentive and the will to get the people more involved in the decision making process. As domestic, regional and international variables continue to have great impact on the Arabian Gulf, the AGCC countries are being forced to deal with the issue of political participation more seriously than have in the past.

This fact was clearly demonstrated in the increase of the popular participation in the decision making process in the AGCC countries, coupled with the formation of new political institutions in the form of (Shura Councils) and the expansion of power of these Shura councils. Additionally, most of the AGCC countries have published their written

constitutions, which protect individual rights and define the relationship between the governments and the people.

Most AGCC countries have realized that since Gulf women constitute almost half of the population, and they should be given real opportunities to take their rightful place in society. Also, all AGCC countries agree that real security could only be achieved through political participation of their people and social justice.

Different ruling families rule the Gulf countries. The traditional pillars of the ruling families' legitimacy were based on traditional power sharing in a tribal society and Islam as represented in Islamic law. Historically, the leader of the tribal community essentially serves as a 'chairman' rather than a ruler, who consulted tribal, religious and merchant notables of the community before taking action. Rulers also found it necessary to govern in accordance with, or at least in reference to the Islamic principles of consultation (Shura) and consensus (Ijma). [Ref.1: p.8]

All AGCC countries attempted to marry traditional and rationalist bases of legitimacy by establishing advisory or Consultative Councils (Majlis Al-Shura). They were the logical choice. Majlis represents the form of the institution and the Shura its constitutional essence. Majlis is widely used for a parliament throughout the Islamic world. Traditionally, the Majlis is a place where relatively free exchange of ideas and opinions on a wide variety of social, political and economic matters are discussed and debated. Also, the Majlis is an open meeting where anyone can petition their leaders from the king down to the Governors of the provinces and local leaders. In other words, the leaders are accessible to the people.

The ruling families in the AGCC countries are ruling elites, and it is generally accepted within tradition and tribal context to exercise authority in the name of the people. Members of the ruling families are under the same obligations and constraints as are all citizens, although this remains subject to abuse so that the ruling families continue to monopolize power. The rest of the people will tolerate this monopoly only as long as they continue to perceive the monarchical system as legitimate and accept the authority of these ruling families. [Ref.4: p.20]

Table I. below shows a summary of the members of the AGCC countries and the ruling families:

Country	Ruler	Ruling Family	Total Population	Area
Bahrain	Hamad Bin* Isa (Amir)**	Al-Khalifa	550,000	694 km
Qatar	Hamad Bin Khalifa (Amir)	Al-Thani	500,000	11,437km
Oman	Qaboos Bin Said (Sultan)	Al-Bu Saidi	2,000,000	312,000 km
Saudi Arabia	Fahad Bin Abdulaziz (King)	Al-Saud	17,000,000	2,331,000 km
Kuwait	Jabir Al Ahmed (Amir)	Al-Sabah	2,000,000	17,818 km
Emirates (UAE)	Zaid Bin Sultan (President)	Al-Nahyan	2,000,000	77,700 km
	*Means "son of"	**Means Prince	24,050,000	2,750,649

Source: After Ref. J. E. Peterson, "The AGCC Steps Toward Political participation," CSIS, 1988, New York, p. 5.

The discovery of oil in huge quantities has changed the AGCC countries and their inhabitants. The oil wealth enabled the AGCC countries to carry out explosive developmental programs. Economic prosperity touched every facet of life in those

countries. The whole infrastructure for Social Services, public Services, and industrial development was created in a few years. Demands for consumer goods increased a thousand-fold within a decade. There is no taxation of any sort, and the assumption is made that when the countries relies on taxation the question of democracy becomes "Unavoidable issue".

There is little reason to suppose that the ruling families in the AGCC countries will be transformed in to Western-style parliamentary or presidential democracies in the foreseeable future. Western-style democracy will not work in the AGCC countries. Therefore, the AGCC countries wisely have chosen the Consultative councils (Majlis Al Shura) or Advisory Councils as a first step toward a limited democracy which is the most suitable for these type of societies, because it satisfies the needs and addresses the concerns of both societies. The official establishment of the National councils has enhanced the tribal or the social democracy that existed in all AGCC countries. Also, this enabled the AGCC countries to persuade both societies to accept the National Council (Shura Councils) as a means for limited political participation in the decision making process. [Ref.4: p.22]

III. SECURITY

By a conventional definition of security, that is to say protection from foreign military attack, the AGCC countries are more secure than at any time in their independent existence. The defeat of Iraq in the 1990-91 Gulf War reduced the military capabilities and the political capacity of one potential threat. Iran's military travail during its eight-year war with Iraq, its limited air power and nonexistent amphibious capability, and its own internal political military threat to the AGCC countries. In formulating their security strategies, the rulers of the AGCC countries have to face both the possibility of foreign attack and the need to maintain their domestic positions. [Ref.5: p.62]

The six Arab countries of the Gulf have taken a variety of steps to enhance their security. First, they banded together and defense cooperation among them through the AGCC's collective security arrangements, a sensible move that not only provides a little more force, manpower and financial resources for defense purposes, but also makes considerable sense economically and culturally. Second, led by Saudi's predominant size and financial resources, the AGCC countries embarked on ambitious military modernization programs. These efforts cannot overcome obvious constraints of small size and limited manpower but, nevertheless, will help these countries to meet a myriad of lesser security threats. Third, the AGCC countries have worked toward accommodation with more powerful and radical neighbors in the Gulf, as well as elsewhere in the Arabian Peninsula and the Middle East. They have also sought friendship as well as economic and political cooperation with the U.S. and the West. However, mindful of the lessons of the past, they have insisted that military cooperation remain limited to an "over-the-horizon"

role. Acquiring new weapon systems and signing bilateral agreements with the U.S. and other Western countries will enhance the security in the region and will help its stabilization [Ref.3: p.7]

A. THE IRAN-IRAQ WAR, 1980-88

The single most important factor precipitating the Iran-Iraq conflict was the Iranian revolution led by Ayatollah Khomeini, the outbreak of the war provided the first threat to the AGCC countries. The major regional response to the war was the formation of the Gulf Cooperation Council. The AGCC aimed to promote military and political cooperation, but could do little against its two overbearing neighbors. The Gulf monarchs feared from the start that the war could spread, threatening their oil revenues and possibly their governments. Iranian leaders had made it clear that their revolution was suitable for export. The rulers were also troubled by Iraq's intentions; yet felt that they had no choice but to support Saddam Hussein financially. The AGCC countries contributed an estimated \$35 billion in economic and military "loans" to Iraq with little prospect they would be repaid. [Ref.6: p.29]

The AGCC countries supported Iraq in this ill-fated war; the Iranians reacted to the Iraqi air attack on its main oil terminal on the Island of Kharj by attacking ships destined for ports in Gulf countries that assisted Iraq in its war effort. Also, during the war some of the AGCC countries (Bahrain and Kuwait) accused Iran in getting involved of destabilizing incidents, including an abortive coup in Bahrain in 1981, terrorist activity in Kuwait in 1983, and violence in Mecca, resulting in the death of more than 400 pilgrims. As a result of these attacks on the oil tankers, Kuwait sought the protection of

the U.S. to escort its vessels in the Gulf. The United States, determined to protect its interest in the region to ensure the flow of oil, accepted to place Kuwaiti oil tankers under the American Flag. Also, the British and Soviets took part in the re-flagging of Kuwaiti ships. Under this arrangement, Kuwait succeeded in protecting its oil tankers and Iran generally avoided interfering with Kuwait ships sailing under the major powers' protection. The war lasted for eight years. Heavy losses were sustained by both countries, which included both human casualties and the destruction of main cities, eventually forcing the Iranians to Accept a United Nations Cease-fire in August 1988. [Ref.4: p.38]

B. THE GULF WAR, 1990-1991

Unfortunately, Iraq's invasion of Kuwait on August 2, 1990, altered political alignments in the Middle East, imperiled world energy supplies and confronted the United States and the U.S.S.R. with the first international crisis since the end of the cold war. It also marked the resumption of Saddam Hussein's quest to dominate the Gulf. The Iraq leader evidently regarded the capture of Kuwait as a low-risk adventure that its Arab neighbors would be powerless to reverse. Iraq's active armed forces totaled one million, by far the largest in the region (Kuwait had an army of 20,000). They were battle tested and well armed. President Saddam Hussein also calculated that neither his ally, the Soviet Union, nor the United States would intervene. [Ref.6: p.32]

This war presented the AGCC countries with immediate threats and a direct challenge to their survival and existence. The invasion of Kuwait was not only rejected by the AGCC countries, but was condemned by the entire international community with the regrettable exception of a few Arab countries who felt that their moral principles

would be compromised and/or seeking vague economic advantages as promised by Saddam. The Iraqi invasion of its small neighbor, Kuwait, was a serious blow to Arab unity. It was an unprecedented event in the modern Arab history and the most traumatic in the history of the Arab league.

Intelligence sources believed that, after Iraq completed its occupation of Kuwait, it was positioning its forces for a subsequent drive toward the Saudi oil fields and possibly continuing down toward other AGCC countries. [Ref.7: p.39]

The U.N. issued a series of resolution condemning Iraq. The Security Council on August 2, called for Iraq's unconditional and immediate withdrawal from Kuwait. Again, to protect its interests in the region and as the only superpower in the world, the U.S. took the lead and formed a coalition from 28 countries and deployed more than 600,000 ground, sea and air personnel to protect Saudi Arabia and liberate Kuwait. The U.S provided the majority of the forces and military equipment.

Command of the coalition forces was divided: Gen Norman Schwarzkopf headed the U.S., British and French Units; his Saudi counterpart, Lt. Gen Khalid Bin Sultan AbdulAziz, Al Saud, commanded units from 24 non-western countries, including troops from Saudi Arabia, Egypt, Syria, Kuwait and other AGCC countries. In addition to 20,000 Saudi troops and 7,000 Kuwaiti troops, an estimated 3,000 personnel from other AGCC countries took part in the land forces of the Coalition Offensive, which was known as Operation Desert Storm. On February 28, 1991, although Kuwait was liberated yet another tragic phase of the war had already begun, the suffering of the innocent Iraq people. [Ref.4: p. 41]

C. THREATS FACING THE ARAB GULF COOPERATION COUNCIL

1. The Iranian Threat

The Persian threat to the Arab Gulf countries goes back hundreds of years in history. In the distant past, there have been many Persian invasions to the Arab side of the Gulf. It was driven by a strong tradition of struggle in the region. It was also the ambition of Iran, expressed earlier by Shah Mohammed Reza Pahlavi, and then, more recently by Ayatollah Khomeini and his successors, to play the dominant role in the Gulf security. The suspicion, which the Sunni Muslims on the Arab side of the Gulf have toward the Shiite religious Imams who control Iran. Those factors are the main cause for the confrontation. They created a psychological threat and mistrust between the two groups. Having said that however, the Iranian and the Arabs are neighbors and have been living together for many centuries. They both contributed generously to the Islamic Civilization and there has been strong economic and cultural cooperation. [Ref.4: p.43]

a. *The Arms Race*

The military balance between Iran and Iraq was at rough parity in late 1996, but over the next five years Iran will develop a significant advantage as it expands its ground forces, according to Dr. Andrew Rathmell [Ref.6: p.43], a security analyst at King's College, London.

Tehran often argues that its arms purchases are merely a response to the weak position it found itself in at the end of war with Iraq. While it is true that Iran's inventory of hardware was badly depleted, its current acquisition programs are set to turn it into the regional superpower over the next decade.

In rearming, Iran has given priority to its maritime capabilities; it has bought three small submarines from Russia and anti-ship cruise missiles from China. It is attempting to acquire medium-and long-range ballistic missiles from China and North Korea, and it has increased its capability to manufacture its own arms. In September 1997, the U.S. and Israeli governments expressed alarm that Iran, with aid from Russia and China, was rapidly developing a ballistic-missile program that could threaten neighboring countries within the next few years. In 1995 Russia agreed to complete a nuclear power plant, begun by Germany in the late 1970s, at Bushire on the Gulf coast. Over U.S. objections, Russia contracted to provide a 1,000-mega-watt nuclear reactor for the plant, to be completed in the year 2000, and may provide a second unit there in the future. The United States strongly opposes these deals for fear that Iran will use the expertise it gains to develop a nuclear weapon. If Iran got a working nuclear device, this would suddenly and radically change perceptions of the military balance in the region. Iran could destroy any hardened target, area target or city within the range of its delivery systems, and Iran's neighbors are extremely vulnerable to attacks on a few cities. Iran has growing capabilities to threaten its neighbors, but it is far from clear that it will aggressively use such capabilities or that they lead to war. Further, Iran faces a complex of military weaknesses and military strengths. [Ref.5: p.216]

b. Border Tensions

The main problem, which continues to strain the relationship between the AGCC and Iran, is its occupation of the three islands of Abu Mosa, Greater Tumb and Lesser Tumb. These islands are claimed by U.A.E. The three islands are strategically

located at the mouth of Strait of Hurmoz in the Arabian Gulf. They are all very small and Abu Mosa has a small amount of oil, while the two Tumbs have none, but strategically they are very important for both countries. In 1971 memorandum of understanding, Iran and Sharja agreed to share the administration of the island of Abu Musa without surrendering either's claim to sovereignty. This arrangement worked well for two decades, but when relations between Iran and the U.A.E. deteriorated, the validity of the understanding was called into question. [Ref.6: p.45]

The U.A.E. has been working hard in politicizing and internationalizing the issue of its claims of ownership. U.A.E. claims that they belonged to Emirates of Sharjah and Ras al-khaimah prior to the formation of the U.A.E. and the Iranian occupied them by force in 1971 when the Emirates were weak. Iran adheres to its official position that:

These islands have always belonged to Iran; the British took them in 1903 and gave them to the Emirates, but returned them to Iran in 1971. These islands are under Iranian sovereignty and if others do not accept this reality that is their problem.

After the Gulf War, the U.A.E. broke a silence of 21 years and announced claims of ownership over all three islands after Iranian authorities prevented more than 100 people of various Arab nationalities (mainly teachers) from entering Abu Musa in April and September 1991. The U.A.E. was very successful in drawing the Arab and world attention to its claim. The AGCC issued many statements supporting the U.A.E. claims. The Arab League has done the same and the UAE officials have brought up the issue in their annual addresses to the UN assembly. Also, the UAE is willing to take the case to the International Court of Justice at the Hague. However, Iran is not willing to accept this

proposal and is even not willing to negotiate the "ownership" of the island. Iran normally issued very strong statements to U.A.E claims; for example after the December 1992, AGCC Summit Meeting, Tehran declared that if UAE tried to take the island, it would have to "cross a sea of blood" to do so. Also, the Iranian military presence on Abu Musa remains relatively high and increased in times of tension. It has been confirmed that Iran has deployed Silkworm Missiles in Abu Musa recently; this action may increase the tension between Iran and UAE. [Ref.8: p.47]

2. The Iraqi Threat

Under the leadership of Saddam Hussein, Iraq still to be a threat to the AGCC countries despite numerous attempts to break out of its isolation. In the current condition, after ten years of the Gulf War, Iraq continues to be a regional pariah country despite numerous attempts to break out of its isolation. It is safe to say that Iraq is unlikely to accept a significant American role in the area in the immediate future. It is highly unlikely, as well, that a Saddam-led Iraq can play a role in any regional security arrangement. [Ref.5: p.324]

The AGCC countries were hoping that the crushing military defeat of Saddam Hussein in 1991 would bring an acceptable and more friendly Iraq government that would respect the sovereignty of the AGCC countries and help the Iraq people to get over the post-war problem. Unfortunately. This did not happen. Ten years later Saddam is still in power causing more security threats to his neighbors and creating more human misery for his own people.

Apart from the military threat, the Iraqi regime could utilize other methods such as subversion or secret agents to destabilize the AGCC countries. This is quite possible, but it is unlikely at the present time, due to the severe economic, political and internal security problems in Iraq, which pose a serious threat directly to Saddam, his family, and the Baathies regime. Also, Baghdad has tried to divide the AGCC countries by appealing to some countries such as Qatar, U.A.E. and Oman and focusing criticism on other such as Kuwait and Saudi Arabia. This technique has not been very successful. The AGCC countries realize the long-term impact of their division, but they do have different points of view on how to deal with Saddam's regime. It must be clear that the AGCC countries have no problems with the people of Iraq, but their problem is with Saddam's regime. Actually, all AGCC countries have considerable sympathy with the innocent Iraq people, as fellow Arabs who are for lifting of the unjustified UN sanctions against the poor people of Iraq who are paying the heavy price of Saddam's aggression. The AGCC leaders are really in a dilemma regarding the situation in Iraq. They are distressed that the Iraq people are continuing to suffer with no end in sight. The people of the AGCC really hope for the downfall of Saddam's Hussein to help the Iraqi people and establish a new page with an acceptable Iraqi government.

After a tortured national debate that lasted throughout the fall of 1990, Congress voted on January 12, 1991, to authorize the use of force to remove the Iraqi army from Kuwait if it did not comply with a UN Security Council resolution and withdraw within three days. Saddam ignored the deadline, and allied air strikes began on January 16. Iraq's response was indecisive with no major attack on the allied forces and only SCUD

missile attacks on Saudi Arabia, Bahrain and Israel. Following more than a month of bombing, which pulverized Iraq's infrastructure, an allied ground assault, "Desert Storm," began on February 23. In 100 hours, allied forces recaptured Kuwait. Before retreating, the Iraqis set fire to 800 Kuwaiti oil wells, which burned for several months, and discharged 6 million to 8 million gallons of oil into the Gulf. [Ref.4: p.49]

a. *The Arms Race*

The AGCC countries in particular are still concerned about possible Iraqi aggression, since an unrepentant Saddam Hussein remains in power and the Iraqi army still has a potential offensive capability of over 2,300 tanks, 4,400 armored vehicles, 1,000 artillery pieces, 120 attack helicopters, 230 transport helicopters, and 300 aircraft. In addition, the strength of the army was placed at some 382,000 men in active service, including four divisions of republican Guards. [Ref.9: p.48]

b. *Border Tensions*

Iraq invasion of Kuwait notwithstanding an agreement of October 1963 in which Iraq recognized an independent Kuwait and its boundaries, the Iraq-Kuwait border and islands question in effect remained deadlocked. Iraq would not agree to the demarcation of the land boundary unless Kuwait first showed some flexibility on the question of ceding or leasing Warba and Bubiyan. Kuwait demanded the prerequisite of a fully demarcated land boundary in accordance with its description in existing official correspondence before any consideration of leasing Warba would be entertained. In truth, Iraq's demand for some sort of control over the islands was less of a territorial dispute than a plea that the existing boundary be adjusted (or Kuwait's effective sovereignty over

the islands be substantively reduced) so as to improve Iraq's access to the sea, in acknowledgement of its disadvantageous position at the head of the Gulf. The status of the Shatt Al-Arab boundary and Iraq's preoccupation with gaining rights over Warba and Bubiyan were important factors in Saddam's respective decisions to prosecute war against Iran during the Autumn of 1980 and annex Kuwait during the summer of 1990. [Ref.5: p.139]

The fact that United Nations peacekeeping forces were stationed until January 1991 along the Iran-Iraq border and remain in position along the Iraq-Kuwait border surely underlines that the framework of country territory in the northern Gulf region remains unstable. On November 10, 1994, Iraq's acceptance of the UN demarcation of its boundary with Kuwait. Iraq's Revolutionary Command Council passed a decree that extended unconditional recognition to the UN Iraq-Kuwait border delimitation/demarcation.

3. Internal Threat

The primary threat to governments of the AGCC countries in future years will be internal, not external. The real threats stem from the prospect of prolonged stagnation of oil prices, pressures for political reform and the resurgence of political Islam Through secret agents working within the societies. Also, the internal threat includes the border disputes, which is another source of irritation and potential conflict among the AGCC countries.

a. Oil Stagnation

In order to ensure the efficient distribution of these oil revenues, the ruling families have created state institutions. Government expenditures have flowed one way, while loyalty to the royal family has flowed in the opposite direction. The size and nature of the oil revenues have had other important consequences. They have given the ruling families of the Gulf much greater economic power than taxes could ever have produced. Massive state spending has made Gulf populations dependent on government-financed social programs. Moreover, there is a widespread recognition in the AGCC that the status quo is unsustainable. Piecemeal attempts to shore up the political and economic system through selective reforms will prevent radical changes. The reforms will gradually increase the influence of the private sector. These changes, however, will not prevent a gradual weakening of the economic power of the AGCC countries. Oil prices have never recovered from the 1985-86 crash and Arab Gulf oil producers have lost the "market share battle." In the short run, even small supply increases from non-OPEC and OPEC countries will force AGCC countries to remain at current levels. Over the long run, huge increase from Iraq and the Central Asian states may rob Arab Gulf producers of the increments in increased global demand they though would accrue to them. [Ref.10: p.1]

Some AGCC countries, notably the UAE, Qatar and Oman, have reacted to stagnation oil exports by investing in gas production and exports. The larger producers, however, have lagged behind in gas development either because of a lack of gas reserves (Kuwait) or available financial resources (Saudi Arabia). The development of Saudi Arabia's gas resources is inevitable given its enormous appetite for electric power;

desalinated water and petrochemical feed stocks, all of which require gas inputs. To do so, however, it will have to allow private firms to enter this strategic sector of the economy.

b. Border tensions

With increased oil exploration came more pressure to delineate boundaries. This led, after World War II, to the protracted Buraimi oasis dispute between Saudi Arabia (backed by the United States) and Oman and Abu Dhabi (Backed by Britain) over boundaries in the southeastern part of the Arabian Peninsula, which was believed to contain oil. In 1952, Saudi troops occupied part of the oasis. Arbitration failed, and in 1955 forces from Abu Dhabi and Oman under British command evicted the Saudi's. Not until 1974 did Saudi Arabia relinquish its claim, in return for a strip of territory giving it access to the Gulf east of Qatar. An individual's countable income is used both to determine the eligibility for, and computing the amount of, a monthly benefit. Countable income is defined as unearned. [Ref.6: p. 23]

The latest dispute between Qatar and Saudi Arabia underlines this point. What has traditionally been a brotherly relationship between a regional power and its smaller neighbor has steadily deteriorated, with the undesirable outcome being that incomplete border arrangements have assumed center stage and contributed negatively to the bilateral relationship. It is obvious that confronting and addressing the boundary issue in an effective manner is essential to the return of normal relations. [Ref.5: p.328]

The AGCC countries have not dealt successfully with the border disputes of its members. The most critical point of contention among the AGCC countries is clearly between Qatar and Bahrain. Qatar claims the island of Huwar and the adjacent

small islands, and in return, Bahrain claims al-Zubarah on the northwest coast of Qatar. The simmering quarrel reignited in the spring of 1986 when Qatar helicopters removed and "kidnapped" workmen constructing a Bahraini coast guard station on Fasht al Dibal, a reef off the coast of Qatar. Saudi Arabia mediated between the two countries and reached a short truce, whereby the Bahrainis agreed to remove the construction on the island. In 1991 the problem flared up again when Qatar decided unilaterally to take the issue to the international Court of Justice in the Hague. [Ref.4: p 51]

There is no question that this conflict has weakened the unity of the AGCC countries by damaging both its credibility and its ability to speak in a single voice.

c. Other Internal Threats

The AGCC countries are seriously concerned about violence, terrorism and "extremism" in the region. These issues are a direct threat to the security and stability of the AGCC countries. The most serious group is the so-called "Islamic Movement" which is found in most AGCC countries. The Security Services in Saudi Arabia, Oman, Kuwait and Bahrain have uncovered secret organizations that are using Islam to cause civil unrest and national disunity in the AGCC countries. In many cases, the organizations have external connections, both financial and organizational. Most of their members are political activists belonging to either the Muslim Brotherhood, or other independent organizations. In some of the AGCC countries, e.g., Bahrain, Iran was accused of providing political and financial aid for such organizations. The members of these secret organizations are highly sophisticated and their aims is to overthrow the AGCC governments and replace the present ruling system with Islamic Governments.

For example, in Oman the security services discovered an underground organization, politically motivated and used Islam to cause internal security problems and national disunity. The organization had more than 200 members, all of whom were arrested by the authorities for questioning in May 1994. This group was connected to and supported by the Muslim Brotherhood. The announcement of the arrest shocked the Oman society. The vast majority of the people of the AGCC countries are aware of the teaching of Islam and its basic tenets, which reject bigotry. Such organizations have done so much damage to the image of Islam in the world and we have to correct it by showing the true tenets of Islam, its principle and tolerance. [Ref.4: p.55]

D. SECURITY ASSISTANCE

1. History Of The U.S. Security Assistance

The United States is a relative latecomer to the Middle East. After World War II, it became the dominant external force in Iran and Saudi Arabia as the Soviets gained influence in Iraq. Britain remained the predominant influence in the Gulf countries and the main navel power in the Gulf. Until 1971, when Britain voluntarily withdrew, the United States relied on it to guarantee political stability. Afterward, Washington counted on the "twin pillars" of Iran and Saudi Arabia to keep the oil flowing and to oppose possible Soviet inroads. The Iranian revolution and the fall of the shah in January 1979 created a power vacuum in the Gulf. [Ref.6: p58]

Security assistance is a tool to serve the U.S. interests. By helping allies and friends to acquire and maintain the tools of war, the U.S. aids their self-defense. This assistance has high priority, especially in regions of the world where U.S. has vested

national security concerns, such as AGCC countries. Such help allows those countries to live in stable political and economic environments.

In president Reagan's FY1988 budget submitted to Congress, he included the general objectives and linkage between security assistance and U.S. foreign policy:

For more than forty years, security assistance has been an essential element of U.S. efforts to help build a more secure and peaceful world. Successive administrations, backed by bipartisan support in Congress, have recognized the indispensable role security assistance plays in the successful conduct of global foreign and defense policies. The U.S. commitment to an effective security assistance effort reflects two fundamental tenets of U.S. interest: a foreign policy based on global engagement and collective security, and a military strategy of deterrence and forward defense. Security assistance is an essential instrument in the implementation and integration of these twin pillars of our national policy. By helping friends and allies to acquire the means to defend themselves, the United States complements the rebuilding of its own military strength and increases the human and material resources available for defense of free world interests.

Where regional instability exists around the world, security assistance has been used as a part to enhance the international relations. Whether motivated by economic gains, or through the realization that a particular combatant is preferable to the other, security assistance attempts to establish and reinforce relationships that are beneficial to the country providing the aid. [Ref.3: p.24]

The strategic interest of the AGCC and the U.S. should not be established on a single depleted commodity (oil), but should be based on greater economic and political cooperation, such as increased investment and trades between the U.S. and the AGCC countries and the establishment of joint ventures between the American companies and AGCC countries national companies. The U.S. providing advanced technology and professional training for the people of the AGCC countries could advance the relation,

and the AGCC countries provide oil and other minerals that the U.S. needs. A positive step has already been taken to establish U.S.-AGCC economic dialogue to promote economic and political ties between the U.S. and the members of the AGCC countries. [Ref.11: p.57]

The U.S. works closely with the AGCC countries to contain the military threat from Iran and Iraq. U.S. Central Command has made steady progress in improving security cooperation with the AGCC countries since Desert Storm. U.S. approach has three dimensions. First, help each Gulf countries strengthen its own defense forces through U.S. defense sales and training programs, Foreign military sales are a good tool to facilitate the arms trades between the U.S. and the AGCC countries. Second, encourage regional defense cooperation among the AGCC countries through the collective security arrangements, the Western countries will always protect the region and will always reformulate a Desert Storm kind of coalition. Third, promote bilateral U.S. security cooperation with individual AGCC countries. [Ref.12: p.45]

2. Foreign Military Sales (FMS)

FMS is an appropriated program through which eligible foreign governments purchase defense articles, services, and training from the United States Government. The purchasing government pays all costs that may be associated with a sale. In essence, there is a signed government-to-government agreement, normally document on a letter of Request (LOR) and a letter of Acceptance (LOA) between the U.S. government and a foreign government. Each LOA is commonly referred to as a "case" and is an assigned a unique case identifier for accounting purposes. Under FMS, military articles and services,

including training, may be provided from DoD stocks or from new procurement. If the source of supply is new procurement, on the basis of having a LOA, which has been accepted by the foreign government, the U.S. government agency or military department assigned cognizance for this case is authorized to enter into a subsequent contractual arrangement with the U.S. industry in order to, provide the article or service requested.

The focus of the security assistance program with any country is the cohesion of the U.S. and the foreign purchaser's policy objectives. Any assistance provided by the U.S. must not only strengthen the recipient country's objectives, but also more importantly, strengthen U.S. national security and promote world peace. The commonality of objectives represents the first litmus test potential foreign military sales must pass. Based on the nature of the request, the military department having cognizance over the defense article or service will normally receive a letter of request from the foreign country through U.S. diplomatic channels.

Once the military department has received the LOR, the request must be validated to ensure that the potential customer is an eligible FMS recipient, that the article or service sought may be sold and that the request has been received through proper channels. The DSAA maintains a military Articles and Services list (MASL), which identifies the military articles and service eligible for FMS. If the item requested is not on the MASL, a policy level decision must be made. [Ref.3: p.29]

3. Benefits From Operation Desert Storm

Operation Desert Storm's primary objective was to secure Kuwait's freedom. Over 30 countries supported this objective. These countries all benefited in various ways.

The primary benefits attributed to Operation Desert Storm include preserving national sovereignty, securing the Middle East supply of oil and increasing regional and international stability. All countries access once they are secured. Thus, these are public benefit, they are non-rivalries and non-excludable. Different countries may receive different values, but that is consistent with public goods theory.

There is one possible exception. The coalition's stated objective was to secure Kuwait's freedom. However, some critics assert that the U.S. had an additional objective: to destroy Iraq's military capability. If this was a U.S. objective, and no other country shared this objective, then the U.S. may have derived some private benefits from Operation Desert Storm. To the extent that the U.S. retains control over its own resources (and those provided by most other coalition members), it could pursue private objectives at expense of coalition's overall objectives. [Ref.13: p.173]

a. National Sovereignty

One obvious benefit is preserving national sovereignty. Kuwait is the prime beneficiary; Saudi Arabia, Bahrain, Qatar, The United Arab Emirates (UAE). However, the national sovereignty benefit extends beyond the countries directly threatened by Iraq. Operation Desert Storm may also increase the perceived commitment by large countries to protect smaller friendly nations, both formal and informal allies. Increasing this perceived commitment may reduce the necessity for this type of action in the future. Thus, larger countries acting as world policemen, including the U.S. and some Western European countries, receive an indirect national sovereignty benefit. Smaller countries that are potential targets of aggressive neighbors also benefit if increasing the

perceived commitment of larger, friendly nations helps forestall this aggression. [Ref.13: p.174]

b. Oil Supply Security

Security Middle East oil supplies is another benefit attributed to operation Desert Storm. The initial reaction is to claim that the greatest oil supply security benefit accrues to the countries most reliant on oil from the AGCC countries. According to this argument, Japan, France and U.K. received a larger relative oil supply security benefit than the U.S. Only Germany is less dependent on AGCC oil.

The World oil market is an integrated market; changes in one source of supply or demand will affect all market participants. Thus, disruptions in oil supplies from Iraq and Kuwait would have impacts extending beyond consumers relying on those particular suppliers. [Ref.13: p.175]

IV. ECONOMIC AND MONETARY EXCHANGE RATE UNION

The six countries share a common legacy of traditional economics, based on pastoralism, pearling, and some fishing. Before oil, the decline of pearling and onset of the world depression had rendered the six countries poverty stricken. The discovery of oil in the decades between 1930 and 1970 was fortuitous, and their economies remain depend on oil revenues, as well as oil-fueled industries. The discovery of oil in huge quantities has changed the AGCC countries and their inhabitants. The oil wealth enabled the AGCC countries to carry out explosive developmental programs. Economic prosperity touched every facet of life in those countries.

The slow movement towards establishing a full monetary or economic union is not unique to the AGCC countries; it is understandable because of the difficulty and complexity union. It might appear that it is much easier and faster to establish a full economic or political union among a group of countries with a high degree of economic and political institutions, such as the countries of the European Union (EU). However, this is not necessarily true, since it is not completely reflected in the EU experience.

The EU, which was formally (before 1992) known as the European Community (EC), was originally founded by six European countries in 1957 under the treaty of Rome. These countries are Belgium, France, Germany, Italy, Luxembourg, and the Netherlands. In 1973, three more countries joined the EC, which are Denmark, Ireland, and the United Kingdom; and in January 1981, Greece also became a full member in the EC. After a lengthy period of negotiation, Portugal and Spain also joined the EC in 1986. The EU is considered by many scholars as one of the best examples of moving towards

the establishment of full economic and political integration among a group of countries. Currently, however, the EU is experiencing some difficulties in achieving some of the goals of its agenda, which covers a wide range of activities in all fields. This is in part because some of the member countries have different views on how to achieve these goals, especially the goal of establishing a full monetary and economic union among the member countries. Moreover, there are some differences among member countries in regard to their economic objectives or priorities. As a result, the harmonization of policies of the EU member countries is usually a lengthy process and is often not easily achieved, especially with the admission of new members as indicated above. For example, it took the EU member countries about three decades of negotiation and modification before they were able to adopt a common or external tariff structure for the whole union. [Ref.14: p.150]

Another example is related to the European monetary system (EMS), which was created over sixteen years ago in 1979 for the purpose of harmonizing monetary policies of member countries and for the creation of a single currency for the whole union. Currently, however, the EMS is facing many difficulties and is still far from achieving all of its goals. In fact, the whole EU experience at its current stage can only be described or classified as a single common market. [Ref.14: p.151]

This chapter contains a brief discussion of the main elements of the unified economic agreement of the AGCC countries; it also provides a general review of their economies, trade, and exchange rate regimes. In the final section of this chapter, some of the major economic achievements of the AGCC countries are briefly reviewed. The

major difficulties and obstacles facing the AGCC countries and the appropriate ways for stimulating intra-AGCC trade are also discussed in some detail in the same section.

A. THE CHARTER AND THE UNIFIED ECONOMIC AGREEMENT OF THE AGCC

The charter by which the AGCC was established consists of twenty-two articles (see Appendix A). This charter describes the main objectives and functions of the AGCC constituent bodies. It also outlines the legal privileges and immunities of the AGCC, which are required to achieve its objectives and undertake its functions. According to this charter, the AGCC is made up of three constituent bodies, which are:

1. The Supreme Council

The Supreme Council is the highest authority of the AGCC and its members are the heads of the member countries. The chairmanship of the Supreme Council is by rotation according to the alphabetical order of the countries. It meets annually in one of the countries. In general, resolutions on substantive issues are passed only by unanimous approval of the members participating in the voting. On procedural matters, resolutions are approved based on majority vote of the members present and participating in the voting. The main function of the Supreme Council includes the following: the establishment of the supreme policy of the AGCC. And review of recommendations, reports and joint projects submitted by the Secretary General: approval of the constitution of the commission for settlement of dispute and appointment of the members of this commission; amendment of the Charter; and approval of the budget.

2. The Ministerial Council

The members of this Council are the foreign ministers of the AGCC countries. They meet once every three months in one of these countries to perform the functions outlined in the AGCC charter.

3. The Secretariat General

This body is made up of a secretary-general assisted by two assistant secretaries-general (one for economic affairs and the other for political affairs), as well as other employees according to need. The main functions of the Secretarial General are to prepare reports, studies, and agendas, and to draft rules and regulations. It is also in charge of preparing the budget, doing any necessary follow up of the above matters, and carrying out any other tasks referred to it by the Supreme or the Ministerial Council.

In addition to these three main constituent bodies, the AGCC has a commission known as "The commission for the Settlement of Disputes" that has the functions of clarifying interpretation of any article in the Charter and resolving disputes that might arise among member countries. Moreover, the AGCC has established "Rules of procedure" for this commission, as well as for the three main bodies; these rules can be used in carrying out their functions. [Ref.15: p.110]

The Unified Economic Agreement (UEA), shown in Appendix (B), consists of seven chapters and twenty-eight articles. In review of this agreement, UEA is perhaps the most promising effort in economic cooperation among developing countries in recent times. If successfully implemented, it might be the most important achievement of the AGCC countries. The UEA provides detail descriptions of the framework, mechanisms,

and principles of coordination, harmonization and integration of the economic activities of the AGCC countries. Kubursi [Ref.16: p.4-5] summarized the major elements of the UEA, as follows:

(1) A free-trade area in the region with no tariffs on regional products and a common tariff on non-regional outputs.

(2) A pooling of bargaining power when dealing with trading partners outside the region.

(3) A common market area in which citizens of the Council member countries are free to move, work, own, inherit and bequest within each and every country of the Council.

(4) A call for harmonization of development plans with the aim of complete integration.

(5) A common oil policy and a coordinated policy of industrialization based on oil resources.

(6) A coordinated industrial development policy for the region as a whole.

(7) Special emphasis on establishing and promoting joint projects in all sectors with the aim of tying the production chains of the region into a common development sequence.

(8) Cooperation in the development of local technology and the joint acquisition of foreign technology.

(9) Pooling of human sources to prevent harmful competition for scarce labor.

(10) Linking the regional markets through road, rail, air and water transportation networks.

(11) A common legal framework for trade and investment in the region; and

(12) A common development aid policy.

B. THE ECONOMIES OF THE AGCC COUNTRIES

In general, the economies of the AGCC countries can be characterized as open with a relatively good or moderate degree of economic development. The economies of the AGCC countries are heavily dependent on the export of oil and natural gas and currently contain about 40% of the world's proven oil reserves and about 12% of the world's natural gas reserves. Moreover, four of these countries – Kuwait, Qatar, Saudi, and the United Arab Emirates are members of the Organization of petroleum Exporting Countries (OPEC). Bahrain and Oman have less oil reserves than the other AGCC countries, but they could qualify to be members of OPEC. However, given the current condition of the oil market, there is no real advantage for them to do so. [Ref.17: p.486]

Currently, oil and natural gas represent about 30-40% of the Gross Domestic Product (GDP) of most of these countries and about 80-90% of their total exports. According to the AGCC Annual Economic Bulletin (1994), these countries at the end of 1992 had a combined GDP of about 201 billion U.S. dollars at current prices (about 185.7 billion U.S. dollars in 1985 constant prices). Tables (A.1) through (A.4) in Appendix (c) provide more details on the aggregate GDP of the AGCC countries in current and constant prices and also on the relative importance of the oil sector in the economies of these countries in the period 1985-1992. During this period and on average, about 55% of

the AGCC total GDP was generated in Saudi and 18[^] in the United Arab Emirates, while Kuwait contributed about 15%. The shares of the other three countries – Bahrain, Oman, and Qatar – of this period's GDP were about 3%, 5%, and 4%, respectively. According to the AGCC Economic Bulletin (1994), the average GDP per capita for the AGCC countries during this period was 8500.00 U.S. dollars. [Ref.17: p.489]

In general, the capital markets of these countries are relatively new, thin, and in need of major development. Bahrain, which is an offshore financial center, seemed to be the leading country among AGCC members in banking and financial services, which represent about 10% of its GDP. Although the economy of Bahrain is the smallest among the economies of the AGCC countries, it is most diversified.

Before the 1970s, all the AGCC countries except Saudi Arabia were under the British protection. After independence and over the past twenty-five years, the economies of the AGCC countries have been through three different stages:

1. The Oil Boom Stage

This stage started in the early 1970s and continued until early 1982. During this period, these countries were continuously running big current account surpluses and were able to accumulate large sums of financial reserves. This was mainly a direct result of the oil crises of 1973 and 1979, which caused the demand and the prices of oil and natural gas to increase dramatically. For example, in 1980 alone, the surpluses of the AGCC countries reached level totaling about 51 million U.S. dollars. [Ref.18: p.88] As a result of large oil revenues, the AGCC governments were able to spend large amounts of funds on many economic and social development programs, including a variety of subsidies.

They also were able to build most of the basic infrastructure of their countries during this period.

Serious efforts were made by the AGCC countries to diversify their economies and to reduce their dependence on oil, but not all efforts were completely successful, especially in the industrial sector. Some of the basic industries that were established by these countries are heavily dependent on oil, and in many cases duplications occurred among the AGCC countries. In this regard, Saudi Arabia's development of the major achievement among the AGCC countries in using industrialization to diversify its economy.

Some of the AGCC countries, however, also used other approaches to reduce their dependence on oil. For example, Kuwait did not rely heavily on domestic industrialization, but instead turned to foreign investments, especially in the U.S.A. and Europe. In fact, Kuwaiti returns from their foreign and domestic investments exceeded their oil revenues for a number of years in the 1980s. on the other hand, the United Arab Emirates, with the lowest tariff and trade restrictions among the AGCC countries, tried to promote its foreign trade and to attract foreign direct investments to achieve more economic diversification. A few years ago the United Arab Emirates established a free trade area, "jabal ali" and offered many attractive incentives to achieve this goal to encourage the re-export business industry. [Ref.18: p.89]

2. The Economic Recession and Deficit Stage

This stage started in early 1982, about one year after the outbreak of the first Gulf war, the Iran-Iraq war in September 1980, and it continued until the early part of 1991

when the second Gulf war, "Desert Storm" ended and Kuwait was liberated from Iraqi occupation. As a result of the first costly war, which depleted some of the financial reserves of all the countries in the Persian Gulf region, and because of the big decline in oil prices during this period, most of the AGCC countries experienced big declines in 1982 in the surpluses of their current accounts. In fact, since 1983 several of these countries started to have increasing deficits in their current accounts, which they frequently financed by drawing down some of their external financial assets. The economic situation got even worse during the period 1984-1988 as a result of the worldwide economic recession and especially because of the big drop in the price of oil in 1986, which reached \$8 per barrel. [Ref.14: p.159] As a result, the AGCC countries experienced larger deficits during this recession period (see Table A.5) and their economies were growing at either negative or very low rates (see Table A.1 through A.4). Although oil production of the AGCC countries increased during the 1983-1984 period (see Table A.6), their oil revenues have declined, especially in the period from 1986 to 1988, because of low oil prices (see Table A.7).

Consequently and in order to lower their deficits, almost all these countries reduced their public expenditures by cutting down on some of the economic and social programs and subsidies that they had initiated during the 1970s. At the same time, they also increased their fees and prices on almost all public services in order to increase their non-oil revenues.

In addition, some of these countries started public awareness campaigns through their media to reduce consumption of public utilities and consumer goods.

With the end of the first Gulf war in 1988, signs of economic growth or recovery were evident throughout the AGCC region in 1989 and in the first half of 1990. In August 1990, this recovery came to a halt when Iraq invaded Kuwait. The liberation of Kuwait turned out to be extremely costly for the AGCC countries. In fact, with the exception of the United Arab Emirates, the cost of liberating Kuwait wiped out large portion of their financial reserves that they had accumulated during the 1970s and early 980s. However, because of this invasion, there was some improvement in the demand and prices of oil in the Kuwait were not able to export any oil during this period. As a result , all AGCC countries except Kuwait have realized big increases in their oil revenues during this period. [Ref.14: p.160]

3. The Current Stage

This stage started at the end of this first quarter of 1991, after the liberation of Kuwait. All AGCC countries with the exception of Kuwait had increased oil revenues during the occupation of Kuwait and after its liberation. Nevertheless, these countries, with the exception of the United Arab Emirates, continued to have deficits in their current accounts. This was mainly due to the large increases in government expenditures, which were inescapable because of the war. Because of the uncertainty about the actual cost of the war and about the future of the oil market, the monetary authorities in the AGCC countries had great difficulties during this period in estimating the expected revenues and expenditures. Most of them were not able to approve their 1991 budgets on time. As a matter of fact, Saudi Arabia did not release a budget for the year 1991, and almost all its expenditures were based on the 1990 budget. However, after the war was over some of

the private funds that had been invested outside the AGCC region were repatriated. As a result, the AGCC aggregate domestic liquidity and commercial banks deposits have increased during the period 1991 to 1993 (see Tables A.8 and A.9). Also, increased levels of private sector activity were apparent during the same period. [Ref.14: p.161]

Nevertheless, these developments and activities were not big enough to shrink the budget deficits of these countries, which became more difficult to finance through drawing on financial reserves alone. Therefore, all the AGCC countries, and some of them for the first time in recent history, started borrowing on the international capital markets to secure the necessary funds. Moreover, some of these countries deficits and also to absorb some of the excess domestic liquidity that had developed. Unfortunately, competition in the oil market became more intense in the second half of 1993, while the divisiveness among OPEC members on quotas and on the appropriate ceiling continued to widen. Consequently, oil prices started to decline in the second half of 1993. Compared to 1992, average oil prices at the end of the first half of 1994 had declined by about 33% (see Table A.7). On other hand, the change in the demand for oil during that period was small and insignificant (see Table A.10). Currently and as a result of the decline in oil revenues, the economies of the AGCC countries are suffering another setback, and the AGCC governments are finding it more difficult to finance their budget deficit while paying for their increasing defense and military expenditures.

Because of continuing budgetary deficits, the governments during the last two years have independently adopted a number of different measures and approved many policy changes designed to increase their non-oil revenues and to help promote the

diversification of their economies. Example of these measures and policy changes include the following:

- (1) The adoption of plans to privatize some of the projects and enterprises that are owned by these governments.
- (2) The encouragement of the private sectors of these countries to assume a greater role in the economic development process.
- (3) The removal and relaxation of many restrictions on foreign direct investment and the adoption of many policies and incentives to attract such investments to the AGCC countries. For example, during the summer of 1994, Oman and Saudi Arabia independently revised most of their laws provide more freedom to foreign firms doing business in these two countries, offer them more incentives, and no longer require that the foreign partner be a minority owner of a joint venture. In fact, Saudi Arabia now allows foreign firms in some cases to own up to 100% of their business in the Kingdom with very few restrictions.
- (4) The adoption of measures to increase their non-oil revenues either by imposing a special tax or by increasing the fees of most of their public services and cutting down on most of their remaining subsidies and social programs. The first approach was adopted by Kuwait, which recently imposed a 10% defense assistance tax on all government employees in order to help pay for its defense expenditures and for the rebuilding of its army. Other AGCC countries, especially Oman and the United Arab

Emirates, are also studying the possibility of imposing certain types of taxes in the near future. The second approach was adopted by Saudi Arabia in January 1995 and by the United Arab Emirates in 1994. [Ref.14: p.164]

C. AGCC FOREIGN TRADE

AGCC foreign trade plays a very important role in the economies of these countries, since on average it represents about 70-75% of their total GDP. Compared to most developing countries and especially to other Arab countries, trade policy of all AGCC countries is relatively free. In recent years, however, tariffs in these countries have been increasing. During the period 1985-1992, AGCC trade was directed to the following regions of the world:

- (1) On average about 8.0% of their total imports and about 5.8% of their total exports were intra-AGCC. The annual ratios, however, for some of these countries during this period were sometimes lower than these average ratios (see Table A.11).
- (2) On average about 2.0% of their total imports and about 2.6% of their total exports were with other Arab countries.
- (3) On average about 3.9% of their total imports and about 4.6% of their total exports were with non-Arab Islamic countries.
- (4) On average about 35.9% of their total imports and about 17.2% of their total exports were with countries of the European Community.

- (5) On average about 14.4 of their total imports and about 12.0% of there total exports were with the U.S.A., which used to be the major trading partner of the AGCC countries during the 1970s and early 1980s.
- (6) On average about 15.5% of their total imports and about 27.4% of their total exports were with Japan, which is currently the major trading partner for the AGCC countries and their largest importer of oil.
- (7) On average about 20.3% of their total imports and about 30.4% of their total exports were with the rest of the world (see Table A.12) for more detail). [Ref.14: p.165]

As can be seen from the above ratios and from Tables A.11 and A.12, the intra-AGCC exports and imports are very small in size compared to the AGCC total trade. They are still growing at slow rates since the formation of the AGCC in 1981. Also, these ratios are very low when compared to intra-trade ratios of the EU or NAFTA. This is mainly because these countries are major oil producing (exporting) countries, and most of their basic industries are heavily oil related and in many cases (such as petrochemicals) duplicated. As a result, trade in oil and petroleum products among these countries is very small and insignificant. In addition, trade among these countries in non-petroleum products is also small because the non-oil sectors of these countries are in general not fully developed and are growing at much slower rates than the oil and mining sectors see Table A.4. Although some of the economic diversification efforts that were made in the 1980s in the non-oil sectors of these countries were successful, the products of these efforts were heavily subsidized. As a result, their actual production costs were higher

than those of other countries making the same products. Consequently, these efforts did not result in the hope-for trade creation. Therefore, as explain later in this chapter, new policies are needed to increase the trade in non-oil products and to enhance the growth rates of the non-oil sectors of these countries. [Ref.14: p.166]

D. BACKGROUND REVIEW ON EXCHANGE RATE REGIMES AND THE CURRENCIES OF THE AGCC COUNTRIES

The four AGCC countries – Bahrain, Qatar, Saudi Arabia, and United Arab Emirates – peg their currencies with limited flexibility to a single currency, the U.S. dollar. In other words, the values of their currencies are maintained within certain margins of their pegged rates of a fixed relationship to the Saudi Riyal (SDR), within margins of up to 7.25%. These margins are not always noticeable, since these countries maintain a relatively stable relationship with the U.S. dollar, which is their intervention currency. Because this type of exchange rate arrangement depends heavily on the SDR, these four countries are sometimes referred to as “SDR peggers”. The IMF classifies the two remaining countries, Kuwait and Oman, differently. Kuwait pegs its currency to a trade-weighted basket, while Oman pegs its currency to a single currency, the U.S. dollar. In general and as can be seen in tables (A.13) and (A.14) in appendix (C), The AGCC countries exchange rates against the SDR and the U.S. dollar seem to be relatively stable since the mid 1970s. This is because these countries have maintained a relatively stable relationship with the U.S. dollar. For this reason, their cross rates have also been almost fixed, especially during the last decade. [Ref.19: p.716]

The following is a general historical background on the currency and the exchange rate regime of each of the AGCC countries:

- (1) **Bahrain:** The currency of Bahrain is the Bahraini Dinar (BD), which is divided into 1000 Fils. The BD was created in October 1969 with an official rate of BD 1 per US \$2.10. Before that and since 1959, the major currency used in Bahrain was the Indian Rupee. In June 18, 1966, Abu Dhabi, which is one of the seven emirates of the present United Arab Emirates (U.A.E.), decided to adopt the BD after the big decline in the value of its adopted currency, the Indian Rupee. After the de facto U.S. dollar devaluation of August 15, 1971, the BD was linked for a short period to the pound sterling, and later on, its official rate against the U.S. dollar was realigned to BD 1 per \$2.28. However, after the second devaluation of the U.S. dollar on February 13, 1973, this rate was realigned again to BD 1 per \$2.53. But on January 28, 1978, an effective rate for the BD was established and the U.S. dollar was replaced by the SDR as the basis for determining exchange rates. Since that date, the BD has been linked to the SDR at the rate of BD 0.46190 per SDR 1 with allowable margins of fluctuations up to 7.25%. [Ref.19: p.719] However, the BD exchange rate against the U.S. dollar has been held constant since December 1980 at the rate of BD 0.376 per U.S. \$1 (or BD 1 per \$2.6596). The Bahrain Monetary Agency (BMA) quotes the daily BD exchange rate against other currencies. [Ref.20: p.39]
- (2) **Kuwait:** The currency of Kuwait is the Kuwaiti Dinar (KD), which is divided into 1000 Fils. The KD was created on April 1, 1961, to replace

the Indian Rupee in use up to that time in Kuwait. The official rate of the KD at its creation was KD 1 per U.S. \$2.80. After the devaluation of the U.S. dollar on August 15, 1971, the KD was briefly linked to the pound sterling, and later on its official rate against the U.S. dollar was realigned to KD 1 per U.S. \$3.04. This rate was realigned again to KD 1 per \$3.377 after the devaluation of the U.S. dollar on February 13, 1973. On March 17, 1975, Kuwait decided to peg the KD to a weighed basket of currencies instead the U.S. dollar. The currencies that are believed to be included in the basket are the British pound, Netherlands guilder, French franc, Swiss franc, German mark, Japan yen, and U.S. dollar, which are believed to have the largest share in this basket. [Ref.19: p.750] In general, however, the weights of the currencies in this basket are assumed to reflect the foreign trade and financial transactions of Kuwait. The Central Bank of Kuwait (CBK) on the basis of the pegged rate determines the KD exchange rate against other currencies, which is fixed but adjustable to reflect the changing relationship between the KD and the currencies in the basket. As of December 31, 1993, the respective buying and selling rates for the U.S. dollar were KD 0.33490 and KD 0.33479 per \$1. [Ref.20: p.10]

- (3) **Oman:** The currency of Oman is the Riyal (OR), which is divided into 1,000 Baizes. It was introduced on November 11, 1972. The OR is basically the same old Oman Riyal, which was known as the Saidi Oman

Riyal (SOR), but with a new name. At that time, the OR had the same official rate of the SOR, which was pegged to the U.S. dollar at the rate of SOR 0.416667 per \$1 (or SOR 1 per \$2.60571). Before that, the SOR was linked to the British pound until the pound was floated on June 26, 1972. After the second devaluation of the U.S. dollar on February 13, 1973, the OR official rate against the U.S. dollar, which is the intervention currency, was realign to the rate of Or 0.3454 per \$1 or (OR 1 per \$2.8952). However, due to the economic recession and the low oil prices of the mid-1980s, the OR was devalued in January 1986 to the rate of OR 0.3845 per \$1 or (OR 1 per \$2.6008). The fixed buying and selling rates for the U.S. dollar are maintained by the Central Bank of Oman (CBO). As of December 31, 1993, these rates were OR 1 per \$2.6042 and OR 1 per \$2.5974, respectively. The commercial bank rates for the OR against all other currencies are determined on the basis of London market rates. [Ref.19: p.375]

- (4) **Qatar:** As it was the case in most of the AGCC countries, the Indian Rupee was the major currency used in Qatar before June 16, 1966. On that date, Qatar and Dubai jointly created a new currency known as the Qatar/Dubai Riyal (QDR). This currency was managed by the Qatar-Dubai currency board and was also used by all remaining emirates except Abu Dhabi, which as indicated earlier had adopted the Bahraini Dinar. The QDR was pegged to the U.S. dollar at the rate of QDR 4.76 per \$1.

However, after the U.S. dollar devaluation on August 15, 1971, the QDR was linked to the British pound until June 26, 1972, when the pound was floated. The QDR official rate was pegged to the U.S. dollar again and was realigned to QDR 3.947 per \$1. Consequently, Qatar decided to retain the QDR after changing its name to the Qatar Riyal (QR), which was divided into 100 Dirhams and had the same official rate against the U.S. dollar, as did the QDR. On March 18, 1975, an effective rate for the QR was established, and Qatar decided to link the QR to the SDR instead of the U.S. dollar. The official rate to the SDR was at QR 4.7619 per SDR with margins of fluctuation up to 7.25%. [Ref.19: pp.759.762] In December 1991, the Qatar Monetary Agency (QMA) was not able to maintain the QR parity within these margins. The QMA sets the daily buying and selling market rates for the U.S. dollar. As of December 31, 1993, the rates for the U.S. dollar were QR 1 per \$0.2746 (or QR 3.6415 per \$1). [Ref.20: p.406]

- (5) **Saudi Arabia:** The currency of Saudi Arabia is the Saudi Riyal (SRL), which is divided into 20 Quirsh or 100 Halalas. The SRL was created a few years after the establishment of Saudi Arabia in 1932. However, the SRL was issued only in silver coins and was used along with gold sovereigns and coins of different nationalities. In 1953, the government of Saudi Arabia Authorized the Saudi Arabian Monetary Agency (SAMA) to issue "pilgrim receipts", which are equivalent to traveler's checks

designed to meet the seasonal needs of foreign pilgrims for riyals and to relieve them from carrying large sums in heavy silver coins. At the beginning of 1960, the SRL was revalued by fixing its value in terms of gold at the equivalent of SRL 4.5 per U.S. \$1. In March 22, 1961, Saudi Arabia joined the IMF and the SRL was made a fully convertible currency. In June 1961, the new paper currency replaced the old silver Riyal, gold coin, and pilgrim receipts. However, the official rate of the SRL was realigned twice after the two devaluations of the U.S. dollar in 1971 and 1973. On March 14, 1975, an effective rate for the SRL was established and the SRL was linked to the SDR, instead of being pegged to the U.S. dollar. The SRL official rate became SRL 4.28255 per SDR 1, with fluctuation of 7.25%. Starting in 1977, the SRL effective rate was frequently adjusted within the limits of these margins, which were indefinitely suspended on July 22, 1981. [Ref.19: p.766] Nevertheless, the SRL has always maintained a relatively stable and fixed relationship with the U.S. dollar. As of December 31, 1993, the middle rate of the SRL against the U.S. dollar, which is determined by SAMA, was SRL 3.745 per \$1 (or SRL 1 per \$0.2670). This rate, which has not changed since June 1, 1986, is used as the basis for determining the market buying and selling exchange rate for the SRL vis-à-vis other currencies. [Ref.20: p.432]

- (6) **United Arab Emirates (UAE):** The currency of the U.A.E. is the Emirate Durham (DH), which is divided into 100 Fils. The DH was issued and circulated in the U.A.E. on May 19, 1973 to replace the Bahraini Dinar (BD) in Abu Dhabi and the Qatar/Dubai Riyal (QDR) in the other six emirates of the U.A.E. At time of its creation, the DH official rate against the U.S. dollar was equal to the old QDR, which was DH 3.9470 per \$1. On January 1, 1976, the DH became interchangeable with the BD at the rate of DH 10 per BD 1, on September 1 of that year it also became interchangeable with the Qatar Riyal (QR) at the rate of DH 1 per QR 1. On January 28, 1978, an effective rate for the DH was established, and the DH was linked to the SDR instead of the U.S. dollar. The official rate of the DH became DH 4.761 per SDR 1 with allowable margins of fluctuation up to 7.25%. On May 5, 1979, the DH interchangeability with the BD and the QR was suspended when Qatar decided unilaterally to revise the QR effective rate. [Ref.19: p.777] However, since 1980, the DH buying and selling rates against the U.S. dollar have been stable and unchanged. As of December 31, 1993, these rates, which are determined by the U.A.E. Central Bank, were DH 3.6730 and DH 3.6990, respectively, per \$1. [Ref.20: p.530].

In all AGCC countries except U.A.E., there is a minimum reserve requirement of 100% in gold and foreign exchange against the banknotes of their currencies. In the case of the U.A.E., there is a minimum reserve requirement of only 70% in gold or foreign

exchange against the banknotes of its currency and all demand deposits. In addition, in all AGCC countries there are no taxes or subsidies on the purchases or sales of foreign exchange, and all of them have facilities for providing forward cover against exchange rate risk. These facilities are usually provided by their commercial banks through their dealings in the international forward exchange markets. Similar forward facilities are also provided by the Central Banks of Kuwait, Oman, Qatar, and the United Arab Emirates, but only for their commercial banks.

E. MAJOR ASPECTS OF ECONOMIC COOPERATION AND THE MAIN OBSTACLES FACING THE AGCC COUNTRIES

Cooperation among the AGCC countries existed even before the formation of the AGCC in 1981. Regular meetings of the Ministers of Trade, Information, Industry, and Agriculture began in the early 1970s. As a result, joint bodies were formed among these countries, including the Arab News Agency, Gulf Television Joint Production, the Arab Gulf Labor Organization, and the Gulf Organization for Industrial Consulting. Moreover, joint agreement among Interior Ministries of these countries was signed in October 1980 covering aspects of traffic, passports, security, and immigration. The practicalities of the laws governing this agreement and other related subjects, such as the issuance of the Gulf identity card to AGCC citizens, are currently in the AGCC Committees. As a result of these cooperative activities, several other significant business ventures and cooperative projects were approved, and most have already been built, especially during the period following the formation of the AGCC in 1981. The majority of these ventures and projects are focused in the industrial sector, such as the Saudi-Kuwait and the Saudi-Bahrain Cement Companies, Aluminum Bahrain (ALBA), in which the Saudi Arabian

Basic Industries Corporation (SABIC) took a 20% stake, the Sitra methanol-ammonia project in Bahrain with the Bahrain National Oil Company (BANOCO), with Kuwait's Petrochemical Industries Corporation (PIC) and SABIC as shareholders, and the Arab Iron and Steel Company (AISCO) which will be built in Bahrain and will feed iron pellets to the various steel plants around the Gulf. The latest major joint ventures include the Gulf Aluminum Rolling Mill Company (GARMCO), proposals for A fourth oil refinery to be built at Yanbu using funds from several Gulf countries, and petrochemical complexes in Oman and Bahrain (GPIC). [Ref.14: p.179]

Although commercial cooperation among these countries is in general very limited, an agreement was reached between Saudi Arabia and Bahrain to sell 1,000,000 B/D of crude oil to the Bahrain petroleum Company.

In terms of financial cooperation, the AGCC countries have the majority share in the Gulf International Bank (GIB), which is based in Bahrain and was formed by the government of Bahrain, Iraq, Kuwait, Oman, Qatar, and Saudi Arabia in 1975. A second major joint venture in the financial services sector that includes two of the AGCC countries as members is the Arab Banking Corporation (ABC), which is based in Kuwait; Libya, Kuwait and the U.A.E. formed it in 1980. In order to develop a unified investment strategy, the AGCC established the Gulf Investment Corporation (GIC) are to finance joint venture projects in all sectors of the economies of the AGCC countries and also to search for good investment opportunities worldwide.

As to the ideas of a unified currency and the formation of a full monetary union, officials from these countries are still investigating the feasibility of such ideas.

Moreover, Central Bank Governors of these countries and other monetary officials are currently working on the development of a unified plan for the management of reserves and to monitor economic activities and capital movements between their economies. They are also discussing the harmonization of their economic policies and banking control procedures. [Ref.14: p.181]

Currently, there are no restrictions or controls on capital mobility among the AGCC countries. However, there are some restrictions on the mobility of foreign labor, which represent about 50% of the AGCC labor force. The mobility of all AGCC member countries nationals is not restricted in any way. In fact, since March 1983, AGCC citizens are permitted to practice freely all types of economic activities, professions, and crafts in all AGCC countries. They also are permitted to own real estate in these countries, which is not available to non-AGCC citizens to practice economic activities in other member countries, has jumped from 854 licenses at the end of 1988 to 4,191 licenses at the end of 1993, which represents an increase of about 80% over a five-years period (see Table A.15 and A.16). However, there are no statistical data on how many of these licenses actually have been used in establishing new businesses in these countries. Therefore, as indicated earlier, it is difficult to argue with certainty that the above figures are an indication of increased trade or economic cooperation among these countries. [Ref.14: p.182]

Of course, cooperation among AGCC countries was never limited to economic and financial area only. To a lesser extend, cooperation among these countries extended to all other area, such as education and training, transportation, fishing, military and security, water, and electricity. Nevertheless, the AGCC at its current stage can only fit

the description of a free trade area. This is because there is no common tariff structure with the rest of the world. In addition, there are a number of other obstacles and important issues that AGCC officials are still hoping to resolve. Unless these obstacles and issues are resolved, it will be indeed difficult for the AGCC countries to move forward to achieve monetary and/or economic integration. The following is a general discussion of the main issues and obstacles.

1. Different Subsidies Structure

The AGCC countries in the early 1970s and 1980s instituted many social and industrial subsidy programs. The main purpose of these programs was to help provide housing for the public and to provide incentives for the private sector to participate in the economic and industrial diversification of these countries. Because of social considerations, a large portion of these subsidies has been directed to reducing the impact of imported inflation and towards basic domestic goods and services, such as gas, water, and electricity. In this connection, Askari [Ref.21: p.182], 1990 advanced a number of observations with respect to Saudi Arabia that also applies to the other AGCC countries.

He stated that:

Many subsidies, although socially desirable, have been, and continue to be, costly, while contributing little to efficient economic development in Saudi Arabia. Most indirect government subsidies (in the form of input subsidies) distort resource allocation. The government should set a timetable to reduce and potentially to eliminate some operating and capital subsidies, and to increase user charges to reflect opportunity costs. Industrial subsidies should be targeted to specific industries in which Saudi Arabia enjoys a comparative advantage but where some assistance is needed because of infant industry-type arguments.

Recently, however, these subsidies have been in general greatly reduced and some are no subsidies have been in general greatly reduced and some are no longer offered by these countries simply because of their budget deficits and the decline in their oil revenues. Nevertheless, the structure of most remaining subsidies, especially industrial subsidies, differs in each countries In order for these countries to form a monetary and/or an economic union, it is very important for them to reduce their subsidies as suggested above and also to unify their structure. As explained in the previous chapter, these measures are among the most important issues that must be considered in the formation of an economic union in order to ensure the equitable distribution of all resulting costs and benefits from such a union.

2. The Slow Growth of the AGCC Trade and the Absence of a Common External Tariff Structure

The size and the growth rate of intra-AGCC trade are still low, and it was indicated that the AGCC countries must adopt extra measures to stimulate their trade in order for them to realize some of the benefits of economic integration. In this connection, Looney [Ref.22: p271] (1994) analyzed intra-AGCC trade and suggested a number of measures that the AGCC countries need to adopt to enhance this trade. He started by providing a comprehensive summary of the main reasons behind the slow growth of their non-oil intra-trade, which include the following:

- Similarity of industrial output in each countries and lack of coordination.
- Development of identical industrial plants in neighboring countries (petrochemicals, fertilizers, steel) has lead to increased regional competition.

- With each country at a similar stage in its development and with similar industrialization strategies, there has been a high demand for capital goods, which are not manufactured in the region.
- The Gulf market is wide open to the international market.
- High domestic demand for some manufactured products leaving no surplus for export.
- Absence of export promotion system.
- Lack of information on export opportunities in neighboring states.
- Minimal import duties on foreign goods from outside the region leading importers to continue importing with higher profit margins than trading in regional goods.
- The dumping policy practiced by some foreign companies and the high cost of production in the Gulf countries.

Looney [Ref.22: p272] argued that among the above reasons or factors, the first one seemed to be the most important. For example, by examining the relationship between the market and productive capacity for industries established so far in these countries, the following common pattern can be found throughout these countries:

- There are export oriented industries sets up with production capacities much bigger than local or even regional demand. Such industries in these enterprises are linked to export distribution.
- There are a number of industries established primarily to meet domestic demand with production geared exactly to local demand, such as the food

and beverage industries. In general, these industries do not product a surplus for export.

- There is a category of industries with design capacities unable to match domestic demand. The countries have to supply extra demand through imports, or the factories greatly exceed design capacity, thereby creating production beyond the economically optimal level.
- Finally there is a category of industries to meet the needs of local consumers while offering surplus output for export. Given limited local markets and problems in finding additional markets, such industries usually experience considerable idle capacity.

In order to enhance intra-AGCC trade, Looney [Ref.22: p.273] suggested that these countries must adopt corrective measures and policies that reduce or eliminate the negative impact of the above reason that are responsible for the slow growth of their intra-trade. However, because this solution or approach requires long term coordination, especially in industrial development, Looney also argued that besides the enforcement of all relevant resolutions adopted so far, two more short term steps can also be adopted to improve the current levels of trade with tangible results. The first step is related to the adoption of a unified common (external) tariffs structure, which is also very important in ensuring an equitable distribution of costs and benefits. Looney explain this step, or measure, by stating that:

Action against unfair competition from foreign imports by the imposition of protective tariffs to raise the price of imports at least equal to the price of locally manufactured goods, especially if the goods are of equal quality and standards. The AGCC decision to impose minimum

duties of foreign imports of 4% from September 1983 was not adequate to meet the problem, which exists.

The second step is to adopt a policy that calls for preferential purchasing of national products by government departments, especially where the local products are of similar specifications and quality to the imported alternative. Under this point comes the question of price differentials and of import license quotas to force importers toward commodities manufactured within the region. [Ref.22: p.273] Currently, some of the AGCCC countries have started adopting the second measure. For example, Bahrain now gives preference in all its government purchases to goods produced in Bahrain and other AGCC countries, but within certain margins of the prices of imported substitutes. These margins are 10% in the case of Bahraini products and 5% for products from other AGCC countries.

In conclusion, Looney [Ref.22: p.274] argued that the AGCC private sectors, which have been given a lot of weight in terms of their role in future industrial development, cannot alone maintain a high level of growth in investment in future industrialization since these sectors are only interested in short term projects that provide quick returns. This is especially true after the confidence of these sectors in most of these countries was somewhat shaken by the Iraqi invasion to Kuwait. Therefore, the AGCC governments should not place a great deal of emphasis on these sectors in regard to long term industrial projects, which are very likely to have a greater impact on their intra-trade. Instead, Looney suggested that:

Because of the uncertainty gripping the region, and reluctance on the part of commercial banks, these projects will probably have to be

undertaken in the near term by governments, with special guarantees provided to the private sector.

The AGCC countries need to adopt a more global view of trade by using overall trade expansionary policies that can greatly improve the level of efficiency of their overall trade sector. This, in turn, could result in significant improvement, or faster growth in their intra-trade. A successful example of this approach to regional trade expansion has been the Association of South-East Asian Nations (ASEAN). During the last twenty-five years, these countries were able to improve greatly the efficiency level and the size of their foreign trade sectors by adopting a set of aggressive trade expansionary policies that includes:

- (1) The active acquisition of foreign technology through a variety of mechanisms, such as licensing, capital goods imports, foreign training, and other means of technology transfers.
- (2) The promotion of specific industries, or products, especially those that have a clear comparative cost advantage in producing through directed export credit financing and/or subsidies for those industries or products.
- (3) The adoption of export-push strategies to encourage rapid export growth by using a balanced mix of fundamental export promoting policies, and market intervention tactics that are based on negotiations with foreign firms and trading partners. For example, most of the ASEAN countries adopted a wide variety of export incentives, and at the same time they agreed with their trading partners to gradually reduce their tariffs and non-tariff barriers. The AGCC countries could benefit a lot from the

experience of the ASEAN countries. For example, these countries could start by adopting the above trade expansionary policies and reducing their tariffs and trade barriers, which have been increasing in recent years.

In order to enhance the non-oil intra-AGCC trade and in setting unified structures of subsidies and common external tariff, special attention also must be given by AGCC officials to the possible negative impact of what is Known as the "Dutch Disease." Loony [Ref.22: p.217] explains that:

The Dutch disease model is based on a three-factor, two commodity full employment model of production and trade. Specifically, the economy is assumed to produce two commodities: one traded internationally (either exported or imported or both), the other traded only domestically since either transported costs or import restrictions prevent the commodity from being internationally traded. The two sectors producing traded and non-traded goods are assumed to have capital in a fixed amount that is given and non-shiftable in the short run. The labor force is fixed in the aggregate, but mobile between the two sectors.

Many developing countries that depend heavily on the export of a single natural commodity such as oil, as in the case of the AGCC countries, are subject to be influenced by or suffer from the negative effect of that commodity. For example, before the discovery of oil, Nigeria used to grow all of its food supply. However, after the oil boom of the 1970s, Nigeria has become dependent on imports from other countries to secure food for its population. This was mainly because of the big decline in the output of its agriculture sector. Stevens tested the relevance of the Dutch disease to the AGCC countries and concluded that the non-oil sectors of the AGCC countries did not seem to suffer from any significant setback after discovery of oil, as in the Nigerian case, because

these sectors were in general underdeveloped and had relatively small productive capacities. In this connection, Looney [Ref.22: p.217] also argued that:

It is not inevitable that Gulf manufacturing industries experienced net negative effects from the post 1973/74 oil booms. Given their low initial level of industrialization, and lack of an indigenous capital good sector, an appreciating currency by reducing the cost of imported capital and intermediate goods could provide a net subsidy rather than a cost to indigenous manufacturers.

Looney also added that in comparison to other AGCC countries, the Dutch disease seemed to be more relevant in the case of Saudi Arabia because of its intense industrialization efforts during the 1970s and 1980s, which have exceeded the efforts of the other AGCC countries. Nevertheless, he concluded that it is impossible to say for sure that the Dutch disease has been a big obstacle to the development of Saudi Arabia's industrial sector.

One major preventive measure that can be adopted by these countries is to subsidize those sectors that are likely to be harmed by the Dutch disease. However, the structure of these subsidies must be exactly the same throughout these countries, and extra care must be taken in identifying the sectors that should be targeted, or the recipients of these subsidies. Another possible measure that was suggested by Askari is to avoid the maintenance of an artificially overvalued real exchange rate, since this is economically counter-productive, especially for the export of non-oil products of these countries.

3. Different Labor Laws

The AGCC countries depend heavily on foreign, especially on the technical side. On average more than 50% of the labor force in these countries are non-AGCC nationals.

The labor laws of each of these countries are somewhat different. Serious efforts were made by AGCC officials during the last decade to harmonize their labor laws. However, there are still a number of these issues that need to be resolved, especially those related to the free movement of foreign laborers within these countries. For security concerns, AGCC officials are somewhat slow in resolving these issues because of the important and delicate factors involved. Without free movement of labor, it will be very difficult for the AGCC countries to move forward towards forming an economic union.

4. Different Commercial Laws and Codes

When the AGCC was formed in 1981, some of its member countries had stricter commercial laws and codes than others for establishing new businesses. This is especially true in the area related to safety, quality, packing, and expiration date of produced or imported products. Currently, the AGCC countries have already standardized some of these laws and codes, especially those in contradiction with the Unified Economic Agreement. Also, they have already agreed on the specifications of hundreds of products. Nevertheless, some of the laws that regulate the retail business, the commercial agency, transportation of products among these countries, and many others are not yet completely harmonized.

5. Different Exchange Rate Policies

The exchange rate regimes and policies of the AGCC countries and the need for their harmonization, which is the main focus of this study, have already been discussed in detail earlier in this chapter. Currently, the monetary authorities of these countries are

still investigating the most appropriate way for harmonizing these regimes and related monetary policies.

6. Agreement on a Common Budget and on the Equal Distribution of Costs and Benefits

Currently, AGCC officials are still working on developing a set of appropriate policies and measures that cover these issues. Without an agreement on these issues, it would be impossible for the AGCC countries to move forward towards the next level of economic integration. As a result, most attention in monetary integration literature has been focused on the benefits side in regard to equitable distribution among member countries.

V. CONCLUSIONS AND RECOMMENDATION

A. CONCLUSIONS

Several important conclusions can be made or drawn from the theoretical background of four chapters provide answers to the research questions and to other issues addressed in this study.

The AGCC was created for cooperation and integration in all fields and not just for security. Actually, the road to the AGCC started many years ago. A diplomat from AGCC countries has stated that the origins of the movement toward Gulf Arab cooperation reach back to 550 B.C. There are similar economic, political, social and security challenges. Perhaps among the most important factors in the composition of the AGCC, the people of the six nations recognize and understand their fraternity in the wider implications of Arab nationality. Although the AGCC was established in 1981, the common qualities had been in existence for centuries, and therefore, cooperation among these countries and the coordination of their effort on a regional level had been in existence for many years. However, the cooperation and the coordination lacked the formal regional entity to organize, unify and direct the effort toward the attainment of the common goals.

The unity among the six AGCC countries is not strong enough for them to independently defend themselves. A key factor needed to achieve such unity is weapon standardization and interoperability among the AGCC militaries. Because the majority of imported weapons are American-made, Saudi Arabia, Bahrain and Kuwait currently share a level of standardization and interoperability, which allows them to work as one

military. Oman, Qatar and U.A.E need to follow suit. The U.S weapon systems appear to be the most suitable, giving the AGCC militaries the required power and mobility in order to defend themselves with autonomy. As oil prices decrease, the U.S weapons are the most affordable compared to other weapons from around the world.

The analysis also shows that the AGCC countries at the current stage are not good candidates to form a single currency area or a full monetary union, because they have not yet met the necessary economic requirements. Forming a full monetary union requires, among other things, that the AGCC countries have the economic characteristics of a floater. More specifically, these countries should have the characteristics that allow them to fix their exchange rates among themselves and float them with the rest of the world. However, the classification results of both years under study show that in general the AGCC countries individually and as a group have the economic characteristics of a pegger, as mentioned above. In addition, there are a number of negative factors that do not make the formation of a full monetary union a favorable option at the current stage of AGCC economic cooperation, including:

- Intra-AGCC trade still represents a small part of the total trade of these countries.
- Several differences still exist among these countries in their monetary and banking policies as well as in tariff and subsidy matters. These states depend heavily on foreign labor. The mobility of foreign labor among the countries is still very restricted. Integration of financial markets is also a main requirement for the formation of a full monetary union. Currently,

however, some of the AGCC countries do not have formal stock markets. Moreover, the steps taken so far by these countries to integrate their financial markets and to attract foreign investments are somewhat limited compared to those actually required.

B. RECOMMENDATION

Prospects for exchange rate regime unification and monetary integration among the AGCC countries, currently, there are certain features and incentives, which suggest that the AGCC countries are likely to benefit if they integrate, and that monetary integration (either partial or full) might be feasible in the near future, assuming they can work out major obstacles such as harmonization of their tariffs and subsidies. These features and incentives are as follows:

- (1) Through monetary and economic cooperation or integration, the AGCC countries can improve the utilization of their natural and financial resources and expand their absorptive capacity. These countries are major oil and natural gas exporting countries. This feature, if taken at its face value, does not seem important in contributing to their economic integration, since no significant trade is likely to take place between them in these or related products. However, these countries can greatly benefit in many other ways through adequate and serious coordination and unification of their energy and economic policies.

For example, during the last two decades almost all AGCC government spent large amounts of their oil revenues attempting to reduce the dependence of their

economies on oil and petroleum products through industrialization and other forms of economic diversification. However, most of their major efforts and investments in this regard were focused on petrochemical industries. Because of the lack of economic coordination among these countries, several of these industries were duplicated and were not adequately profitable, especially because of the heavy competition in the current depressed world market for petrochemical products. Nevertheless, there are still many opportunities for more economic diversification in these countries, especially in the non-oil economic sectors. It is very important for the countries to coordinate or unify their energy and economic policies, for the following reasons:

- The countries can avoid duplications in their future economic diversification efforts.
- The countries can increase the efficiency of using existing oil-related facilities such as refineries and pipelines. For example, the East-West pipeline of Saudi Arabia can be used jointly by some of the AGCC countries in exporting some of their oil and natural gas from the Red Sea to increase their netback prices. This pipeline also can be a source of extra security for these countries if wars or political crises were to develop again in the Persian Gulf. In this connection, the AGCC countries are also studying the possibility of establishing a pipeline from Kuwait to Salalah in Oman, which are the only AGCC countries with free access to the Indian Ocean.

- The countries can pool some of their financial resources in order to finance large economic projects that they could not undertake individually. Good examples of such projects are the proposed Oman liquefied Natural Gas (LNG) project that will enable Oman to export LNG to Japan and to South East Asia, and the proposed underwater gas pipeline to India that Oman is planning to build in the future. These projects will be very difficult for Oman to finance alone, especially with the current situation of the oil market.
 - By having a common energy policy and a coordinated set of economic policies, the AGCC countries will be perceived by the world community as a large economic unit. As a result, it is very likely that these countries will gain more influence in OPEC and in the world oil market. This can greatly improve the international bargaining position of these countries with their major trading partners, leading to better terms of trade. By acting as one unit, these countries will also be able to market large amounts of their petrochemical products to many Asian and African countries that are recipients of economic assistance from AGCC countries, by tying economic assistance to the purchase of these products.
- (2) The future outlook for intra-AGCC trade in non-oil goods and services can be more promising. If these countries adopt more aggressive steps and more meaningful measures, their non-oil trade has the potential to grow at a faster rate in the future. For example, according to the AGCC annual

Economic Bulletin (1992), the number of business licenses issued during the period 1983 to 1990 to AGCC citizens for the purpose of practicing economic activities in other member countries was 1,973. This figure has increased in 1993 to 4,191 licenses. However, because there are no statistical data on how many of these licenses actually have been used in establishing new businesses in these countries, it is difficult to argue that the above figures are an indication of increased trade or economic cooperation among the countries. In fact, since the formation of the AGCC in 1981, the intra-trade for these countries continues to grow, albeit at very slow rates. The reason for this slow growth and the appropriate steps and measures for stimulating this trade are discussed in the forth chapter.

The optimistic outlook indicated above is based on the fact that during the last few years AGCC governments started the privatization of some of their projects and services. They have also encouraged the private sectors to participate in the diversification of their economics, especially in non-oil activities. In addition, many restrictions on foreign direct investments in these countries were relaxed or completely removed by most governments, and many incentives have been established. All customs barriers and trade tariffs on goods and services produced by the AGCC countries have been removed. As more economic diversification in non-oil activities takes place in these countries, the size of their international trade and intra-trade is very likely to grow at much faster rates. This is of course assuming that duplication in these activities is avoided and steps towards stimulating their intra-trade (such as the development of

export promotions programs and strategies) are taken. As the above-mentioned initiatives start to become a reality, the economies of these countries will be more open to the rest of the world. As a result, exchange rates among the AGCC countries, which now are relatively stable and their rates with the rest of the world, will become more volatile. In order to avoid or reduce the negative impact of such volatility on their prices, intra-trade and balance of payments, the AGCC countries will find it in their best interest to adopt a unified exchange rate regime.

(3) The AGCC countries already constitute a natural unity by virtue of their geographic and demographic makeup. Therefore, by spontaneously integrating their efforts in the political and economic fields, they have a very good chance of succeeding in forming an effective common market that will make their goal of monetary and economic unity much easier to achieve. The idea of having one big common market seems to be very attractive for the AGCC countries because of the great implications to their intra-trade and to the promotion and sale of their non-oil goods and services. This is especially true because:

- Transportation costs of moving these goods and services among the countries are relatively low because of their geographical proximity.
- The countries are small, either in physical size or population or both; but at the same time, the per capita income in these countries is relatively high.

- (4) One of the main ideas behind the formation of AGCC was to establish a security arrangement among the six Gulf countries that is based on political and military cooperation. The urgent need for security became very obvious after the Iraqi invasion of Kuwait in 1990. However, in order for these countries to have an effective security arrangement, it is essential for them to have some form of monetary and economic integration. El Mallakh explained this point by stating “without economic steps at this stage, political and military security would have an inadequate base. Economic ties will be an immense tool to bring these countries together in a meaningful way.”
- (5) Finally, the AGCC charter calls for several objectives and goals, one of which is the establishment of similar systems among the AGCC countries in various fields including finance, economics, commerce, education, health, information, transportation, tourism, legal, and administrative affairs. Moreover, AGCC Unified Economic Agreement specifically requires the AGCC countries to coordinate their financial, monetary, and banking policies. It also calls for more cooperation between monetary agencies and central banks of these countries, including an endeavor to create a joint or single currency.

APPENDIX A. THE ARAB GULF COOPERATION COUNCIL CHARTER

The States of

Kingdom of Saudi Arabia
United Arab Emirates
Sultanate of Oman
Kuwait
Bahrain
Qatar

Being fully aware of their mutual bonds and special relation, common characteristics and similar systems founded on the Creed of Islam; and based on their faith in the common destiny and destination that link their people;

ARTICLE ONE

Establishment of Council

A council shall be established hereby to be named "The Cooperation Council for the Arab countries of the Gulf," hereinafter referred to as the "Cooperation council."

ARTICLE TWO

Headquarters

The Cooperation Council shall have its headquarters in Riyadh, Saudi Arabia.

Cooperation Council Meetings

The Council shall hold its meetings in the country where it has its headquarters, and may convene in any member country.

ARTICLE THREE

Cooperation Council Meetings

The Council shall hold its meeting in the state where it has its headquarters, and may convene in any member state.

ARTICLE FOUR

Objectives

The basic objectives of the Cooperation Council are:

1. To effect coordination, integration and cooperation between member states in order to achieve unity among them.
2. To deepen and strengthen relations, link and scopes of cooperation now prevailing between their peoples in various fields.
3. To formulate similar regulations in various fields including the following:
 - a. Economics and Finance,
 - b. Commerce, customs and communications,
 - c. Education and culture,
 - d. Social and health affairs,
 - e. Information and tourism,
 - f. Legislation and administrative affairs.

To stimulate scientific and technological progress in the fields of industry, mineralogy, agriculture, water and animal resources;

ARTICLE FIVE

Council Membership

The Cooperation Council shall be formed of the six states that participated in the Foreign Ministers' meeting held at Riyadh on February 4. 1981.

ARTICLE SIX

Structures of the Cooperation Council

The Cooperation Council shall have the following main structures:

1. Supreme Council to which shall be attached the Commission for Settlement of Disputes.
2. Ministerial Council.
3. Secretariat-General.

Each of these structures may establish branch organs as necessary.

ARTICLE SEVEN

Supreme Council

1. Supreme Council is the highest authority of the Cooperation Council and shall be formed of heads of member states. Its presidency shall rotate alphabetically according to the names of the member states.
2. The Supreme Council shall hold one regular session every year. Extraordinary sessions may be convened at the request of any member seconded by another member.
4. The Supreme Council shall hold its session in the territory of member states.
5. A Supreme Council meeting shall be considered valid if attended by two thirds of the member states.

ARTICLE EIGHT

Supreme Council's Functions

The Supreme Council shall endeavor to achieve the objectives of the Cooperation Council, particularly concerning the following:

1. Review matters of interest to the member states.
2. Lay down the higher policy for the Cooperation Council and the basic lines it should follow.
3. Review the recommendations, reports, studies and common projects submitted by the Ministerial Council for approval.

4. Review reports and studies, which the Secretary-General is charged to prepare.
5. Approve the bases for dealing with other states and international organizations.
6. Approve the rules of procedure of the Commission for Settlement of Disputes and nominate its members.
7. Appoint the Secretary-General.
8. Amend the Charter of the Cooperation Council
9. Approve the Council' Internal Rules.
10. Approve the budget of the Secretariat-General.

ARTICLE NINE

Voting in Supreme Council

1. Each member of the Supreme Council shall have one vote.
2. Resolutions of the Supreme Council on substantive matters shall be carried by unanimous approval of the member states participating in the voting, while resolutions on procedural matters shall be carried by a majority vote.

ARTICLE TEN

Commission for Settlement of Disputes

1. The Cooperation Council shall have a commission called 'Commission for Settlement of Disputes,' which shall be attached to the Supreme Council.
2. The Supreme Council shall form the Commission for every case separately based on the nature of the dispute.
3. If a dispute arises over interpretation or implementation of the Charter and such dispute is not resolved within the ministerial Council or the Supreme Council, the Supreme Council may refer such dispute to the Commission for Settlement of Disputes.

4. The Commission shall submit its recommendation or opinion, as applicable, to the Supreme Council for appropriate action.

ARTICLE ELEVEN

Ministerial Council

1. The Ministerial council shall consist of the Foreign of the member states or other delegated Ministers. The Council's presidency shall rotate among members every three months by alphabetical order of the states.
2. The Ministerial Council shall convene every three months and may hold extraordinary sessions at the invitation of member seconded by another member.
3. The Ministerial Council shall decide the venue of its next session.
4. A Council's meeting shall be deemed valid attended by two thirds of the member states.

ARTICLE TWELVE

Functions of the Ministerial Council

The Ministerial Council's functions shall include the following:

1. Propose policies, prepare recommendations, studies and projects aimed at developing cooperation and coordination among member states in the various fields and adopt required resolutions or appropriate recommendations.
2. Endeavor to encourage, develop and coordinate activities between member states in all fields. Resolutions adopted in such matters shall be referred to the Ministerial Council for further submission, with recommendations, to the Supreme Council for appropriate action.
3. Submit recommendations to the Ministers concerned to formulate policies whereby the Cooperation Council's resolutions may be put into action.
4. Encourage means of cooperation and coordination between the various private sector activities; develop cooperation between the member states' chambers of the member states among them.

5. Refer any of the various facets of cooperation to one or more technical or specialized committees for study and presentation of relevant proposals.
6. Review proposals related to amendments to this Charter and submit appropriate recommendations to the Supreme Council.
7. Approve the Ministerial Council's Rules of Procedure as well as the Rules of Procedure of the Secretariat-General.
8. Appoint the Assistant Secretaries-General, as nominated by the Secretary-General, for a renewable period of three years.
9. Approve periodic reports as well as internal rules and regulations related to administrative and financial affairs proposed by the Secretary General, and submit recommendations to the Supreme Council for approval of the budget of the Secretariat-General.
10. Make arrangements for the Supreme Council's meetings and prepare their agendas.
11. Review matters referred to it by the Supreme Council.

ARTICLE THIRTEEN

Voting in Ministerial Council

1. Every member of the Ministerial Council shall have one vote.
2. Resolutions of the Ministerial Council on substantive matters shall be carried by a unanimous vote of the member states present and voting and on the procedural matters by a majority vote.

ARTICLE FOURTEEN

Secretariat-General

1. The secretariat-General shall be composed of a Secretary-General who shall be assisted by deputies and a number of staff as required.
2. The Supreme Council shall appoint the Secretary-General, who shall be a citizen of one of the Cooperation Council states, for a period of three years, which may be renewed for one time only.
3. The Secretary-General shall nominate the assistant secretaries-General.

4. The Secretary-General shall appoint the Secretariat-General's staff from among the citizens of member states and may not make exceptions with the approval of the Ministerial Council.
5. The Secretary-General shall be directly responsible for the work of the Secretariat General and the smooth flow of work in its various organizations. He shall represent the Cooperation Council with other parties within the powers vested in him.

ARTICLE FIFTEEN

Functions of the Secretariat-General

The Secretariat-General shall undertake the following functions:

1. Prepare studies related to cooperation and coordination, integration and programs for member states common action.
2. Prepare periodic reports on the Cooperation Council's work.
3. Follow up the implementation by the member states of the resolutions and recommendations of the Supreme Council and Ministerial Council.
4. Prepare reports and studies ordered by the Supreme Council or Ministerial Council.
5. Prepare the draft of administrative and financial regulations commensurate with the growth of the Cooperation Council and its Expanding responsibilities.
6. Prepare the Cooperation Council's budgets and accounts.
7. Make preparations for meetings, prepare agendas and draft resolutions for the Ministerial Council.
8. Recommend to the Chairman of the Ministerial Council the convening of extraordinary sessions of the Council whenever necessary.
9. Perform any other tasks entrusted to it by the Supreme Council or Ministerial-General.

ARTICLE SIXTEEN

The Secretary-General, the assistant secretaries-general and all members of the Secretariat-General's staff shall carry out their duties in complete independence and for common interest of the member states.

They shall refrain from any action or behavior that is incompatible with their duties and from divulging the secrets of their jobs either during or after tenure of office.

ARTICLE SEVENTEEN

PRIVILEGES AND IMMUNITIES

1. The Cooperation Council and its organization shall enjoy on the territories of all member states such legal competence, privileges and immunities as required realizing their objectives and carrying out their function.
2. Representatives of the member states on the Council and the Council's employees shall enjoy such privileges and immunities as are specified in agreements to be concluded for this purpose among the member states. A special agreement shall organize the relations between the Council and the states in which it has its headquarters.
3. Until such time as the two agreements mentioned in item 2 above are prepared and put into effect, the representatives of the member states in the Cooperation Council and its staff shall enjoy the diplomatic privileges and immunities established for similar organizations.

ARTICLE EIGHTEEN

Budget of the Secretariat-General

The Secretariat-General shall have a budget to which the member states shall contribute equal amounts.

ARTICLE NINETEEN

Charter Implementation

1. This Charter shall go into effect as of the date it is signed by the heads of the six member states named in this Charter's Preamble.

2. The original copy of this Charter shall be deposited with Saudi Arabia's Ministry of Foreign Affairs which shall deliver a true copy thereof to every member state pending the establishment of the Secretariat-General at which time the latter shall become depository.

ARTICLE TWENTY

Amendments to Charter

1. Any member states may request an amendment to this Charter.
2. Requests for Charter amendments shall be submitted to the Secretary-General who shall refer them to the member states at least four months prior to submission to the Ministerial Council.
3. An amendment shall become effective if it is approved unanimously by the Supreme Council.

ARTICLE TWENTY-ONE

Closing Provisions

No reservation may be voiced with respect to the provisions of this Charter.

ARTICLE TWENTY-TWO

The Secretariat-General shall arrange to deposit and register copies of this Charter with the League of Arab states and the United Nations, by resolution of the Ministerial Council.

This Charter is signed on one copy in Arabic Abu Dhabi City, United Arab Emirates, on 21 Rajab 1401 corresponding to May 25, 1981.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B. THE UNIFIED ECONOMIC AGREEMENT

With the help of God the Almighty;

The Government of the member states of the Gulf Cooperation Council; in accordance with the Charter thereof, which calls for closer cooperation and stronger links; and, desiring to promote, expand and enhance their economic ties on solid foundations, in the best interest of their peoples; and, intending to coordinate and unify their economic, financial and monetary policies, as well as their commercial and industrial legislation and customs regulation, have agreed as follows:

CHAPTER ONE TRADE EXCHANGE

ARTICLE 1

1. The member states shall permit the importation and exportation among each other of agricultural, animal and natural resource products that are of national origin.
2. All agricultural, animal, industrial and natural resource products that are of national origin shall receive the same treatment as national products.

ARTICLE 2

1. All agricultural, animal, industrial and natural resource products that are of national origin shall be exempted from customs duties and other charges having equivalent effect.
2. Fees charged for specific services such as demurrage, storage, transportation, haulage or unloading, shall not be considered as customs duties when they are levied on domestic products.

ARTICLE 3

1. For products of national origin to qualify as national products, the value added ensuing from their production in members states shall not be less than 40% of their final value. In addition, the share of the member states' citizens in the ownership of the producing plant shall not be less than 51%
2. Every item to be exempted hereby shall be accompanied by a certificate of origin duly authenticated by the government agency concerned.

ARTICLE 4

1. Member states shall establish a uniform minimum customs tariff applicable to the products of third countries.
2. One of the objectives of the uniform customs tariff shall be the protection of national products from foreign competition.
3. The uniform customs tariff shall be applied gradually within five years from the date of entry into force of this agreement. Arrangements for the gradual application shall be agreed upon within one year from the said date.

ARTICLE 5

Member states shall grant all facilities for the transit of any member state's goods to other member states, exempting them from any duties and taxes, what so-ever, without prejudice to the provisions of Paragraph 2 of Article 2.

ARTICLE 6

Transit shall be denied to any goods that are barred from entry into the territory of a member state by its local regulations. Lists of such goods shall be exchanged between the customs authorities of the member states.

ARTICLE 7

Member states shall coordinate their commercial policies and relations with other states and regional economic groupings and blocs with a view toward creating balanced trade relations and favorable circumstances and terms of trade.

To achieve this goal, the member states shall make the following arrangements:

1. Coordinate export/import policies and regulations
2. Coordinate policies for building up strategic food stocks.
3. Conclude economic agreements collectively when and if the common benefit of the member states is realized.
4. Work for the creation of a collective negotiating force to strengthen their negotiating position via-a-vis foreign parties in the field of importation of basic needs and exportation of major products.

CHAPTER TWO
MOVEMENT OF CAPITAL, CITIZENS AND
EXERCISE OF ECONOMIC ACTIVITIES

ARTICLE 8

The member states shall agree on the executive rules which would ensure that each member states should grant the citizens of all other member the same treatment granted to its own citizens without any discrimination or differentiation in the following fields:

1. Freedom of movement, work and residence.
2. Right of ownership, inheritance and bequest.
3. Freedom of exercising economic activity.
4. Free movement of capital.

ARTICLE 9

The member states shall encourage their respective private sectors to establish joint ventures in order to link their citizens' economic interest in the various spheres.

CHAPTER THREE
COORDINATION OF DEVELOPMENT

ARTICLE 10

The member states shall endeavor to achieve coordination and harmony among their respective development plans with a view to achieving economic integration between them.

ARTICLE 11

1. The member states shall endeavor to coordinate their policies with regard to all aspects of the oil industry including extraction, refining marking, processing, pricing, exploitation of natural gas, and development of energy sources.
2. The member states shall endeavor to formulate unified oil policies and adopt common positions via-a-vis outside world, and in the international specialized organizations.

ARTICLE 12

To achieve the objectives specified in this Agreement the member states should perform the following:

1. Coordinate industrial activities, formulate policies and mechanisms aiming at the industrial development and the diversification of their productive bases and on integrated basis.
2. Standardize their industrial legislation and regulations and guide their local production units to meet their needs.
3. Allocate industries among member states according to relative advantages and economic feasibility, and encourage the establishment of basic as well as ancillary industries.

ARTICLE 13

Within the framework of coordination, the member states shall pay special attention to the establishment of joint ventures in the fields of industry, agriculture and services, and shall support them with public, private or mixed capital in order to achieve economic integration, productive interfaces, and common development on a sound economic basis.

CHAPTER FOUR TECHNICAL COOPERATION

ARTICLE 14

The member states shall collaborate in finding spheres for common technical cooperation aimed at building a genuine local base founded on encouragement and support of research and applied sciences and technology as well as adapting imported technology to meet the region's progress and development objectives.

ARTICLE 15

Member states shall set rules, make arrangement and lay down terms for the transfer of technology, selecting the most suitable or introducing such changes thereto as would serve their various needs. Member states shall also, whenever feasible, conclude uniform agreements with foreign governments and scientific or commercial firms to achieve these objectives.

ARTICLE 16

The member states shall formulate policies and implement coordinated programs for technical, vocational and professional training and rehabilitation at all levels and stages. They shall also upgrade educational curricula at all levels to link education and technology with the development needs of the member states.

ARTICLE 17

The member states shall coordinate their manpower policies and shall formulate uniform and standardized criteria and classification for the various categories of occupations and crafts in different sectors in order to avoid harmful competition among them and to optimize the utilization of available human resources.

CHAPTER FIVE TRANSPORT AND COMMUNICATION

ARTICLE 18

The member states shall accord means for passenger and cargo transportation belonging to citizens of the other member states, when transiting or entering their territory, the same treatment they accord to the means of passenger and cargo transportation belong to their own citizens, including exemption from all duties and taxes, whatsoever. However, local transportations are excluded.

ARTICLE 19

1. The member states shall cooperate in the fields of land and sea transportation, and communications. They shall also coordinate and establish infrastructure projects such as seaports, airports, water and power stations, roads, with a view to realizing common economic development and linking their economic activities with each other.
2. The member states shall coordinate aviation and air transport policies among them and promote all spheres of joint activities at various levels.

ARTICLE 20

The member states shall allow steamers, ships and boats and heir cargoes, belonging to any member states to freely use the various port facilities and grant them the same concerns fees, pilot age, and docking services, haulage, loading and unloading, maintenance, repair. Storage of goods and other similar services.

CHAPTER SIX FINANCIAL AND MONETARY COOPERATION

ARTICLE 21

The member states shall seek to unify investment in order to achieve a common investment policy aimed at directing their internal and external investments towards serving their interest, and realizing their peoples' aspirations in development and progress.

ARTICLE 22

The member states shall seek to coordinate their financial, monetary agencies and central banks, including an endeavor to establish a common currency in order to further their desired economic integration.

ARTICLE 23

Member states shall seek to coordinate their external policies in the sphere of international and regional development aid.

CHAPTER SEVEN CLOSING PROVISIONS

ARTICLE 24

In the execution of the Agreement and determination of the procedures resulting therefrom, consideration shall be given to differences in the levels of development between the member states and the local development priorities of each. Any member states may be temporarily exempted from applying such provisions of this Agreement as may be necessitated by temporary local situations in provisions of this Agreement as may be necessitated by temporary local situations in that states or specific circumstances faced by it. Such exemption shall be a specified period and shall be decided by the Supreme Council of the Gulf Cooperation Council.

ARTICLE 25

No member states shall give to any non-member state any preferential privilege exceeding that given herein.

ARTICLE 26

1. This Agreement shall enter into force four months after its approval by the Supreme Council.

2. This Agreement may be amended by consent from the Supreme Council.

ARTICLE 27

In case of conflict with local laws and regulations of member states, execution of the provisions of this agreement shall prevail.

ARTICLE 28

Provisions herein shall supersede any similar provisions contained in bilateral agreements.

Drawn up at Riyadh on 6 Sha'ban 1401 Corresponding to June 8, 1981.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C. TABLES ON THE ECONOMIES

Table A.1
AGCC Gross Domestic Product (AT Current Prices)

(Million Dollars)

% Change	GDP	Year
-9.2	153482.7	1985
-15.9	129057.9	1986
5.3	135955.3	1987
0.7	136955.7	1988
12.7	154324.9	1989
12.9	174280.9	1990
2.2	178131.2	1991
12.7	200822.1	1992

Source: AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press, 1994), 27.

Table A.2
AGCC Gross Domestic Product
(At 1985 Constant Prices)

(Billion U.S. dollar)

Year	GDP	% Change
1985	154.0	-4.6
1986	153.5	-0.3
1987	151.3	-1.4
1988	160.3	5.9
1989	163.8	2.2
1990	169.5	3.5
1991	173.3	2.2
1992	185.7	7.2

Source: IMF, International Financial Statistics: YearBook. Washington, D.C.: IMF, 1994.

Table A.3
AGCC Gross Domestic Product Per Capita
(At Current and 1985 Constant Prices)

(Billion U.S. Dollar)

Year	GDP Per Capita Current	GDP Per Capita Constant
1985	9,586	8,803
1986	10,095	8,414
1987	9,758	7,904
1988	10,470	8,105
1989	11,094	8,022
1990	10,511	8,034
1991	12,295	8,009
1992	12,810	8,599

Source: IMF, International Financial Statistics Year Book. Washington, D.C.
IMF, 1994.

Table A.4
Relative Importance and Growth Rates of GDP Sectors
In the AGCC countries

(Percentage)

Non-Mining		Mining Sector		Year
Growth Rate	Relative Importance	Growth Rate	Relative Importance	
-3.4	65.1	-16.6	36.5	1985
-4.8	74.2	-37.0	27.5	1986
1.6	71.1	14.9	29.8	1987
4.4	74.2	10.6	26.7	1988
-10.5	59.3	36.6	32.5	1989
19.3	61.6	35.3	38.4	1990
6.3	64.0	-4.0	36.0	1991
9.1	62.6	16.0	37.4	1992

Source: AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press, 1994), 31.

Table A.5
AGCC Balance of Payments

(Million Dollars)

1992	1992	1990	1989	1988	1987	1986	Item
27319.2	28696.4	14570.4	22275.4	11680.8	15792.6	9891.4	Trade Balance
--	82098.2	58056.2	60756	52224.7	51854.2	44916.2	Exports (F.O.B)
--	(53401.8)	(43485.8)	(42480.6)	(40363.9)	(36061.6)	(35024.8)	Imports (C.I.F)
(45530.7)	(81554.6)	(40447.4)	(23771.8)	(16894.0)	(19108.9)	(19999.5)	Services & Unrequited Transfers
18211.5	(52858.2)	(25877.0)	(1496.4)	(5033.2)	(3316.3)	(10108.1)	Total Current Account
--	(29726.6)	(7732.5)	(10148.0)	(7426.9)	(9276.5)	(5151.2)	Capital Transfers (Private & Official)
--	(82584.8)	(33609.5)	(11644.4)	(1260.1)	(12592.8)	(15259.3)	Surplus or Deficit Balance of Payments
--	82584.8	33609.5	11644.4	12460.1	12592.8	15259.3	Changes in Reserves

Source: AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press, 1994), 61.

Table A.6
Oil Production

(1000 Barrel per Day)

Percentage of AGCC Production of World Production	World	AGCC	Year
10.0	56614.0	6122.8	1985
14.1	59827.0	8446.2	1986
13.2	60108.0	7923.5	1987
14.1	64900.0	9175.5	1988
14.8	65900.0	9762.5	1989
16.0	64760.0	10776.1	1990
18.3	64759.0	11838.0	1991
19.7	65050.0	12858.7	1992
20.0	64878.0	13399.0	1993

Source AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press, 1994) , 29.

Table A.7
Spot Prices of Selected Crude Oil

(Dollar per Barrel)

OPEC Basket	Brent	Arab light	Year
13.75	14.38	13.89	1986
17.70	18.43	17.23	1987
14.24	14.94	13.40	1988
17.31	18.22	16.24	1989
22.26	23.61	20.82	1990
18.66	20.10	17.47	1991
18.45	19.32	17.91	1992
16.32	17.00	15.67	1993
14.20	14.63	13.95	1994

Source: AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press,1994) , 24.

Table A.8
AGCC Domestic Liquidity

(Million Dollars)

Domestic Liquidity	Quasi Money	Money		Year
		Demand Deposits	Currencies with the Public	
76744.7	45506.7	18568.8	12669.2	1985
79715.8	9528.6	17217.2	12970.0	1986
84989.8	52425.3	18657.8	13906.5	1987
88588.1	56028.3	19787.2	12772.6	1988
92121.3	59834.3	20070.4	12216.6	1989
94194.2	57451.8	20162.9	15579.5	1990
103548.1	61842.6	25777.1	15928.4	1991
106555.9	61925.7	29023.8	15606.4	1992
108865.3	63983.2	29493.6	15388.5	1993

Source: AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press, 1994), 47.

Table A.9
AGCC Commercial Banks – Deposits Structure

(Million Dollars)

<u>Total</u>	Quasi monetary Deposits	Govern Deposits	Demand Deposits	Year
52694.3	45506.7	5318.8	18568.8	1985
70602.9	49528.6	3856.5	17217.2	1986
75665.9	52425.5	4582.6	18657.8	1987
80157.2	56028.3	4341.7	19787.2	1988
84469.2	59834.3	4564.5	20070.4	1989
83544.4	57451.8	5929.7	20162.9	1990
94111.8	61842.6	692.1	25777.1	1991
99683.2	61925.7	8733.7	29023.8	1992
102453.2	63983.2	8976.4	29493.6	1993

Source: AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press, 1994), 48.

Table A.10
World oil Demand and OPEC Production

(Million/ Barrel/Day)

OPEC Production	World Demand	Year
17.66	47.60	1986
17.04	48.60	1987
19.38	62.82	1988
20.84	63.92	1989
22.71	64.57	1990
23.01	64.82	1991
24.05	65.11	1992
24.72	64.99	1993
**24.82	*65.64	1994

* Preliminary Estimates.

** First half of the year.

Source: AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press, 1994), 23.

Table A.11
Intra-AGCC Trade

Intra-AGCC Exports

(Million Dollars)

Kuwait	Qatar	Oman	S.A.	Bahrain	U.A.E	Year
403.3	146.4	155.3	1305.5	351.1	869.8	1985
325.0	150.4	142.9	1185.0	197.0	645.5	1986
259.4	157.1	173.0	1670.3	184.7	588.7	1987
244.5	190.6	223.2	1633.6	603.2	699.4	1988
270.3	207.2	273.1	2219.9	694.0	799.9	1989
136.3	275.4	260.3	2955.4	482.2	1069.8	1990
40.3	231.4	370.1	2874.2	580.1	1026.2	1991
141.8	271.2	519.5	1074.5	634.3	1277.7	1992

Intra-AGCC Imports

(Million Dollar)

Kuwait	Qatar	Oman	S.A	Bahrain	U.A.E	Year
191.9	55.8	718.6	496.0	1326.8	449.8	1985
275.9	63.1	483.7	385.3	1003.6	386.8	1986
431.3	71.2	428.9	363.8	1327.9	386.1	1987
668.3	92.2	507.9	544.7	1407.2	396.1	1988
681.7	119.9	623.1	530.6	1475.6	533.2	1989
383.6	146.2	720.9	936.3	1588.7	832.2	1990
796.2	172.6	925.8	408.5	1711.3	1192.7	1991
500.5	214.4	1169.9	563.4	1873.8	1311.9	1992

Source: AGCC Secretariat General, Economic Bulletin, Vol, 9
(Riyadh: AGCC Secretariat General Press, 1994), 59.

Table A.12
AGCC Direction of Trade Imports

(Million Dollar)

Total	Rest of the World	Japan	U.S.A	E.U	Islamic Count	Arab Count	AGCC	Year
144087.7	8452.9	8524.9	5679.9	16303.5	1212.9	674.7	3238.9	1985
100	19	19	13	37	3	2	7	%
37611.9	7398.5	6274.9	5073.2	14377.1	1224.2	665.6	2598.4	1986
100	20	17	13	38	3	2	7	%
38730.7	8190.8	6427	4807.6	14040.6	1493.9	761.6	3009.2	1987
100	21	17	12	36	4	2	8	%
43459.1	10104.7	6543.8	5631.6	14842.2	1768.9	951.5	3616.4	1988
100	23	15	14	34	4	2	8	%
45062.8	10720.2	2064.6	6232.3	15169.4	1896.2	1016.0	3964.1	1989
100	24	13	14	34	4	2	9	%
48700.1	8565.6	6790.0	7047.2	18464.9	2070.7	1153.7	4608.0	1990
100	18	14	15	38	4	2	9	%
58534.7	11571.6	7902.6	9814.9	20534.0	2396.6	1108.6	4206.4	1991
100	19.8	13.5	16.8	35.1	4.1	1.9	7.9	%
69431.0	12517.1	10605.3	12049.6	24131.6	3318.3	1175.2	5633.9	1992
100	18.0	15.3	17.4	34.7	4.8	1.7	8.1	%

Exports

(Million Dollar)

Total	Rest of the World	Japan	U.S.A	E.U	Islamic Count	Arab Count	AGCC	Year
64843.0	20329	22476.9	2428.9	11905.2	3061.3	1410.3	3231.4	1985
100	31	35	4	18	5	2	5	%
47530.6	13600.5	13382.3	4225.8	10510.0	1882.4	1283.8	2645.8	1986
100	28.6	28	8.8	22	4	2.6	6	%
55187.4	17711.5	14231.4	6155.9	10091.6	2137.9	1825.9	3033.2	1987
100	32	26	11	18	4	3	6	%
56368.9	18033.6	13245.9	8073.3	9395.7	1896.4	2121.5	3602.5	1988
100	32	24	14	17	3	4	6	%
6678.0	21149.1	1567.2	10544.9	10648.2	2282.9	1954.3	4464.4	1989
100	32	24	16	15	4	3	6	%
8600.2	28708.3	23463.4	11721.6	12740.0	2501.8	1694.7	5179.4	1990
100	33.3	27.3	13.6	14.8	3	2	6	%
871777.1	23479.6	21597.3	11899.4	12784.3	5082.2	1838.3	5096.0	1991
100	28.7	26.4	14.6	15.6	6.3	2.2	6.2	%
81742.0	21028.9	23305.8	11652.8	14281.5	5689.6	1864.4	3919.0	1992
100	25.7	28.5	14.3	17.5	7.0	2.2	4.8	%

Source: AGCC Secretariat General, Economic Bulletin, Vol.9
(Riyadh: AGCC Secretariat General Press, 1994), 55&57.

Table A.13
AGCC Currencies Per SDR and Per Saudi Riyal (SRL)
(Period Average)

Year	Saudi Riyal	Kuwaiti Dinar		Bahraini Dinar		Omani Riyal		Qatar Riyal		U.A.E. Dirham	
	SDR	SDR	SRI	SDR	SRI	SDR	SRI	SDR	SRI	SDR	SRI
1974	4.2694	0.525	0.0826	0.4747	0.1112	0.4154	0.0973	4.7472	1.1119	4.7613	1.1152
1975	4.2709	0.3521	0.0824	0.4802	0.1124	0.4194	0.0979	4.7710	1.1121	4.8096	1.1261
1976	4.0755	0.3376	0.0828	0.4567	0.1121	0.3988	0.0980	4.5758	1.1228	4.5639	1.1198
1977	4.1156	0.3346	0.0813	0.4619	0.1122	0.4033	0.1016	4.6221	1.1231	4.5571	1.1073
1978	4.2563	0.3443	0.0809	0.4851	0.1140	0.4324	0.1028	4.8532	1.1404	4.8468	1.1387
1979	4.3427	0.3569	0.0822	0.4930	0.1135	0.4463	0.1038	4.8742	1.1225	4.9299	1.1353
1980	4.3299	0.3518	0.0813	0.4907	0.1133	0.4495	0.1021	4.7596	1.0992	4.8252	1.1144
1981	3.9885	0.3287	0.0824	0.4434	0.1122	0.4073	0.1007	4.2922	1.0761	4.3287	1.0853
1982	3.7847	0.3178	0.0840	0.4151	0.1097	0.3813	0.1000	4.0186	1.0618	4.0528	1.0708
1983	3.6931	0.3116	0.0844	0.4019	0.1088	0.3692	0.0980	3.8192	1.0536	3.9243	1.0626
1984	3.6119	0.3034	0.0840	0.3854	0.1067	0.3540	0.0954	3.7311	1.0330	3.7628	1.0418
1985	3.6777	0.3053	0.0830	0.3818	0.1038	0.3507	0.1031	3.6959	1.0049	3.7273	1.0135
1986	4.3446	0.3424	0.0788	0.4411	0.1015	0.4481	0.1027	4.2704	0.9829	4.3067	0.9913
1987	4.8425	0.36022	0.0744	0.4862	0.1004	0.4972	0.1027	4.7068	0.9720	4.7469	0.9803
1988	5.0330	0.3749	0.0745	0.5053	0.1004	0.5167	0.1027	4.8919	0.9720	4.9335	0.9802
1989	4.8014	0.3764	0.0784	0.4821	0.1004	0.4930	0.1027	4.6668	0.9720	4.7061	0.9802
1990	5.0844	0.3849	0.0757	0.5105	0.1004	0.5220	0.1027	4.9418	0.9720	4.9837	0.9802
1990											
July	5.0334	0.3916	0.0778	0.5053	0.1004	0.5168	0.1027	4.8923	0.9720	4.9340	0.9803
Aug	5.1577	N.A.	N.A.	0.0178	0.1004	0.5295	0.1027	5.0132	0.9720	5.0559	0.9803
Sep	5.2075	N.A.	N.A.	0.5228	0.1004	0.5347	0.1027	5.0615	0.9720	5.1044	0.9803
Oct	5.3498	N.A.	N.A.	0.5371	0.1004	0.5493	0.1027	5.1998	0.9720	5.2441	0.9803
Nov	5.4109	N.A.	N.A.	0.5433	0.1004	0.5555	0.1027	5.2592	0.9720	5.3040	0.9803
Dec	5.3426	N.A.	N.A.	0.5364	0.1004	0.5485	0.1027	5.1928	0.9720	5.2370	0.9803
1991											
Jan	5.3290	N.A.	N.A.	0.5350	0.1004	0.5471	0.1027	5.1796	0.9720	5.2237	0.9803
Feb	5.3952	N.A.	N.A.	0.5417	0.1004	0.5539	0.1027	5.2439	0.9720	5.2886	0.9803
Mar	5.1717	N.A.	N.A.	0.5192	0.1004	0.5310	0.1027	5.0267	0.9720	5.0695	0.9803
Apr	5.0606	0.39020	0.0711	0.5.81	0.1004	0.5196	0.1027	4.9187	0.9720	4.9606	0.9803
May	5.0315	0.3900	0.0775	0.5053	0.1004	0.5166	0.1027	4.8904	0.9720	4.9121	0.9803
June	4.9410	0.3873	0.0784	0.4961	0.1004	0.5073	0.1027	4.8025	0.9720	4.8414	0.9803
July	4.9494	0.3875	0.0783	0.4969	0.1004	0.5082	0.1027	4.8106	0.9720	4.8516	0.9803
Aug	5.0023	0.3893	0.0778	0.5022	0.1004	0.5116	0.1027	4.8621	0.9720	4.9015	0.9803
Sep	5.0692	0.3914	0.0772	0.5089	0.1004	0.5205	0.1027	4.9270	0.9720	4.9690	0.9803

Source: Kingdom of Saudi Arabia, Saudi Arabian Monetary Agency, Quarterly Bulletin, 3rd Qtr, (Riyadh: National Center for Financial and Economic Data, Ministry of Finance and National Economy), 1991.

Table A.14
AGCC Currencies Per U.S. dollar
(Period Average)

Year	Saudi Riyal	Kuwait Dinar	Bahraini Dinar	Omani Riyal	Qatar Riyal	U.A.E .Durham
1977	3.5251	0.2866	0.3956	0.3454	3.9590	3.9032
1978	3.3996	0.2750	0.3875	0.3454	3.8767	3.8712
1979	3.3606	0.2762	0.3816	0.3454	3.7727	3.8157
1980	3.3267	0.2703	0.3770	0.3454	3.6568	3.7074
1981	3.3825	0.2787	0.3760	0.3454	3.6399	3.6710
1982	3.4282	0.2879	0.3760	0.3454	3.6399	3.6710
1983	3.4548	0.2915	0.3760	0.3454	3.6399	3.6710
1984	3.5238	0.2960	0.3760	0.3454	3.6399	3.6710
1985	3.6221	0.3007	0.3760	0.3454	3.6399	3.6710
1986	3.7033	0.2919	0.3760	0.3820	3.6399	3.6710
1987	3.7450	0.2775	0.3760	0.3845	3.6399	3.6709
1988	3.7450	0.2790	0.3760	0.3845	3.6400	3.6710
1989	3.7450	0.2937	0.3760	0.3845	3.6400	3.6710
1990	3.7450	0.2920	0.3760	0.3845	3.6400	3.6710
1990						
July	3.7450	0.2904	0.3760	0.3845	3.6400	3.6710
Aug	3.7450	N.A	0.3760	0.3845	3.6400	3.6710
Sept	3.7450	N.A	0.3760	0.3845	3.6400	3.6710
Oct	3.7450	N.A	0.3760	0.3845	3.6400	3.6710
Nov	3.7450	N.A	0.3760	0.3845	3.6400	3.6710
Dec	3.7450	N.A	0.3760	0.3845	3.6400	3.6710
1991						
Jan	3.7450	N.A	0.3760	0.3845	3.6400	3.6710
Feb	3.7450	N.A	0.3760	0.3845	3.6400	3.6710
Mar	3.7450	N.A	0.3760	0.3845	3.6400	3.6710
Apr	3.7450	0.2893	0.3760	0.3845	3.6400	3.6710
May	3.7450	0.2902	0.3760	0.3845	3.6400	3.6710
June	3.7450	0.2932	0.3760	0.3845	3.6400	3.6710
July	3.7450	0.9933	0.3760	0.3845	3.6400	3.6710
Aug	3.7450	0.2915	0.3760	0.3845	3.6400	3.6710
Sept	3.7450	0.2890	0.3760	0.3845	3.6400	3.6710

Source: Kingdom of Saudi Arabia, Saudi Arabia Monetary Agency, Quarterly Bulletin, 3rd Qtr. (Riyadh: National Center for Financial and Economic Data), Ministry of Finance and National Economy, 1991.

Table A.15
No. of Licenses Given to AGCC Citizens to Practice Economic Activities in Other
Member Countries During 1983-1988

(License)

Total	Other	Crafts	Profession	Economic Activities	Country
427	126	--	5	296	U.A.E
52	8	6	9	29	Bahrain
242	--	--	--	242	S.A.
34	3	--	3	28	Oman
3	--	--	--	3	Qatar
96	24	2	8	62	Kuwait
854	161	8	25	660	AGCC

Source: AGCC Secretariat General, Economic Bulletin, Vol. 5 (Riyadh: AGCC Secretariat General Press, 1990), 111.

Table A.16
No. of Licenses Given to AGCC Citizens to Practice Economic Activities in Other
Member Countries During 1983-1993

(License)

AGCC	Kuwait	Qatar	Oman	S.A.	Bahrain	U.A.E.	Item
3672	335	204	98	715	191	2129	Active
87	22	3	8	11	17	26	Profession
432	15	1	1	14	25	376	Crafts
4191	372	107	107	740	233	2531	Total

Source: AGCC Secretariat General, Economic Bulletin, Vol. 9 (Riyadh: AGCC Secretariat General Press), 40.

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF REFERENCES

1. E. Peterson, "The Gulf Cooperation Council Search for Unity in a Dynamic Region," Westview Press, Boulder, Colorado, and London, 1988.
2. W. Joseph, edited by John Sandwich, "The Gulf Cooperation Council," westview Press, Boulder, Colorado, 1982.
3. Al-Jeeran Isa K," The U.S. ARMS Sales to the Gulf Cooperation Council," Master's Thesis Naval Postgraduate School, Monterey, California, 1997.
4. Al-Quraini Abdullah J," The Gulf Cooperation Council in all fields," Master's Thesis, Naval Postgraduate School, Monterey, California, 1997.
5. Gary G. Sick and Lawrence G. Potter," The Persian Gulf at The Millennium," St. Martin's Press, New York, 1997.
6. Lawrence G. Potter," The Persian Gulf in Transition," Foreign Policy Association, New York, 1998.
7. Metz, Helen Chapin," Persian Gulf States," Federal Research Division, Library of Congress, 1993.
8. New York Times, 28 December 1992.
9. International Institute for Strategic Studies (IISS), the military balance 1992-1994, London: Brassey's, 1993.
10. <http://www.merip.org/mer/mer204/fareed.htm>
11. Al-Qassim, Waheed A," Restructuring AGCC Security Policy After the Gulf War," Master's Thesis, Naval Postgraduate School, Monterey, California, 1994.
12. International Relations House of Representatives,"U.S. Policy in the Persian Gulf," second session, September 25, 1996.
13. B. Hinkley," Costs of Operation Desert Shield/Desert Storm: A Burden Sharing Perspective" Master Thesis, Naval Postgraduate School, Monterey, California, 1991.
14. Aitani, Muhammad Yousif, " An Empirical Investigation in to the Appropriate Foreign Exchange Rate". Master Thesis, George Washington University, Washington, 1995.

15. Nakhleh, Emile A," The Gulf Cooperation Council Policies, Problems, and Prospect," Peager Publishers, New York, 1988.
16. Atif, Kuburs," Oil, Industrialization and Development in the Arab Gulf States". London: Crom Helm, 1984.
17. Department of the Army," Persian Gulf States: Country Studies". Government Printing Office, 1985.
18. AGCC Secretariat General, Economic Bulletin, Vol.2 (Riyadh: AGCC Secretariat General Press) 1987.
19. Philip P. Cowitt," World Currency Yearbook," (New York: International Currency Analysis, Inc) 1991.
20. International Monterey Fund," Exchange Arrangements and Exchange restrictions: Annual Report 1994," Washington, D.C , 1994.
21. Askari, Hussein," Saudi Arabia's Economy: Oil and the Search for Economic Development," Vol. 67 (Greenwich, Connecticut: JAI Press, Inc), 1990.
22. Robert E. Looney," Industrial Development and Diversification of the Arabian Gulf Economies," Contemporary Studies in Economic and Financial Analysis, Vol. 70 (Greenwich, Connecticut: JAI Press, Inc), 1994.

INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center 2
8725 John J. Kingman Road, Ste 0944
Fort Belvoir, VA 22060-6218

2. Dudley Knox Library 2
Naval Postgraduate School
411 Dyer Road
Monterey, California 93943-5101

3. Professor Robert E.Looney NS/LX 1
Naval Postgraduate School
Monterey, CA 93943-5101

4. Professor Roger D. Evered SM/EV 1
Naval Postgraduate School
Monterey, CA 93943-5101

5. Maj.Khalifa D. Al-Binali 1
Block 925, Av 2506
East Riffa, House 55
Bahrain