



The Third Annual Conference of Arab Research Centers:

The GCC Countries: Politics and Economics in Light of the Regional and International Shifts and Changes

Background Paper

The Gulf region is a unique geo-political phenomenon. It constitutes a vital part of what geo-political expert Nicholas Spykman (1893-1943) called the Rimland.¹ Based on this, and since the Portuguese incursion into the region and the confrontation with the Omani naval power in 1507, the Gulf region has enjoyed considerable importance on the international stage. It formed the vital passageway to the Indian sub-continent and Southeast Asia for the colonial powers, starting with the Portuguese and ending with the British, who were aspiring to control Eurasia. The region became exceptionally important following the discovery of oil in the interwar period and during the Cold War, when oil was transformed from a mere commercial commodity into a strategic and political asset, especially after the 1973 Arab oil embargo.

The current strategic importance of the region stems from its weight in the global energy market and its regional political influence. Economically, the region holds 54 percent of the world's oil reserves and 23 percent of its gas reserves, a fact that catalyzes interest in its security and future. For the same reason, the major powers jostle for influence over the region, and are further spurred by their concern to secure the routes for transporting oil, particularly through the Strait of Hormuz, which carries great strategic importance.

The GCC states also benefit from their direct access to the sea, in contrast to some other competing energy-exporting regions. For example, three of the five states on the Caspian Sea—Azerbaijan, Kazakhstan, and Turkmenistan—lack an outlet to the ocean; their oil exports are thus dependent on the consent of neighboring states. None of the Gulf states face such difficulties, making the flow of their oil to the international market fairly easy.

Besides its position on the world energy map and its economic and financial weight—highlighted when Saudi Arabia joined the G20 after the world financial crisis of 2008—the region has much global symbolic and intangible capital because it is home to Islam's holiest sites. This has given it great moral authority and influence throughout the Arab and Islamic worlds. Coupled with this, Arab Gulf states carry an equally significant financial weight, due to the large labor force they absorb and their vast surplus in petrodollars, which some use to exert political influence.

In recent years, the geopolitical importance of the Gulf region has become a matter of tense debate. Some argue that the region's importance will shrink as a result of increased global shale oil and gas production, whereby the United States will become the world's leading producer of fossil fuels in the near future. Advocates of this position also cite the U.S. withdrawal from Iraq and Afghanistan as proof underlining the decreasing importance of the region. Others take the opposite view, arguing that even though it will be the world's biggest producer, the U.S. will not achieve self-sufficiency in liquid petroleum until 2040, hence the Gulf region will maintain its relevance and importance. Furthermore, in parallel with American efforts to reduce reliance on Gulf oil, the Southeast Asian states, which today drive the world economy and account for almost 50 percent of global GDP, will increase their own reliance on Gulf oil and gas. Meanwhile, the U.S. economy is set to become more dependent on the Asian economies, which are the major investors in U.S. Treasury bonds and the main funders of the federal government.

From a strategic perspective, the U.S.' military presence in the nearby oil fields of the Gulf and American control of pertinent sea lanes will remain key tools of American influence in East Asia and the Pacific. Moreover, Arab Gulf oil will remain the benchmark for world oil prices, while its low cost will always make it more economically attractive and viable. It will also remain less

¹ A strip of land and sea that owns far greater resources than the Heartland, and, hence, whoever controls it would most likely control the essential power relations of the world.

environmentally damaging compared to other forms of production, including shale oil and gas.

Furthermore, as tensions between Russia and the West grow as a result of various regional and international crises, Ukraine being the most recent, Europe will grow more reliant on Gulf oil and gas as it tries to find alternatives to Russia's hold over its energy supplies. China and the Arab Gulf states will also seek to strengthen their relations ahead of the anticipated U.S.-Iranian rapprochement. This must be understood in context, whereby China is the world's second largest consumer of energy, and Arab oil is the closest to it geographically. In addition, as a result of the blow to the Gulf states' confidence in their traditional western allies caused by recent regional and international developments, their blossoming relations with the Asian tigers, especially China, will permit the Gulf states to diversify their range of options and expand their economic and political interests, rather than rely entirely on the West.

Regionally, the Gulf states, for the first time, have to directly confront growing Iranian influence, whereas in the past they had relied on others to perform that task, such as Iraq under Saddam Hussein. Iraq's collapse as a regional power, as a result of the U.S. occupation, and its subsequent fall under Iranian influence, threatens the security of the GCC states. This has prompted some GCC states to call for more effective policies to confront Iran, evidenced, in part, in their military intervention in Bahrain and the direct support for the Syrian revolution. The position of some Gulf states toward Turkey remains linked to other concerns, mainly ideological differences, while the attitude toward Israel is conditioned by both the absolute popular rejection of establishing relations and the determinants of U.S. policy in the Middle East.

The significance of the role played by the Gulf states has increased in recent years, and they now comprise a central part in Arab politics as a result of the absence of the pivotal states—Syria, Iraq, and Egypt—particularly following the Arab Spring revolutions and the profound changes they provoked. This begs the question of whether the GCC is capable of leading the Arab regional order and joint Arab action, and whether it can succeed in activating Arab economic agreements, particularly the Greater Arab Free Trade Area (GAFTA). These questions have gained further legitimacy after the deep impact of the Arab Spring revolutions on bilateral relations within the GCC system and the subsequent disclosure of tensions and divisions among the foreign policy positions of the Gulf countries. There are now shadows of doubt over the future of the Gulf system that was, until recently, the most harmonious, cohesive, and successful Arab regional grouping. Political differences and the disagreements over the Gulf currency, the single market, the central bank, and other issues have started to push members within the GCC to seek external economic options. These challenges, such as bilateral free trade agreements, only add to the existing doubts about the future of the GCC, without even mentioning the matter of assuming the leadership role in joint Arab action. Rather than achieving greater integration, such as the Gulf Union proposed by Saudi Arabia in 2012, the Gulf states appear to be heading for more fragmentation and division.

Oil revenues were undoubtedly the chief factor behind the GCC states' economic growth and development, but they also led to rentier systems entirely dependent on these oil revenues and susceptible to regional and international political and economic ups and downs. Hence, the GCC states find themselves facing the challenge of diversifying their economies and placing more emphasis on the building of human capital capable of producing knowledge, creating wealth, and meeting the needs of the labor market for skilled, local expertise. Such a shift would reduce the reliance on migrant labor, which some view as a threat to the identity of the Arab Gulf region and a diminishment of its Islamic culture.

Based on the above concerns outlining the serious challenges that face the GCC states in light of highly significant regional and international developments; and in accordance with the practice of the Arab Center for Research and Policy Studies (ACRPS) to follow major strategic transformations,

internal or external, that impact the Arab region; the ACRPS will hold its third annual conference this year entitled: “The GCC Countries: Politics, Economics and the Regional and International Shifts and Changes.” Given the significance of the Gulf region internationally, a number of relevant, specialist foreign research centers will be invited to participate. Discussions will focus on a number of themes and issues, most importantly:

Gulf Geopolitics and Regional and International Changes

- 1- The Strategic importance of the Gulf region; regional and international competition
- 2- Shifts and changes in the world order and the impact on GCC states
 - U.S. retreat
 - The shift of gravity toward Asia
 - The rise of new regional and global powers
- 3- Gulf security
 - Implications of the collapse of Iraq and the rise of Iran for the security of the GCC states
 - Regional security issues post-Arab Spring
 - Nuclear power, nuclear security and the impact of the Iranian nuclear agreement on the GCC states
 - Security agreements with the world powers

Relations with World Powers

- The United States
- Europe
- Russia

Relations with Asia

- Emerging powers: China, India, Japan, and South Korea
- Pakistan and Afghanistan
- Central Asian and the Caspian Sea states

Relations with Regional Powers

- Turkey
- Iran
- Israel

The GCC States and the Arab Regional Order

- The Palestine question
- The Syrian crisis
- Political and security challenges in Egypt and Yemen
- Relations with the Arab Maghreb

Challenges Facing the GCC States

1- Economic challenges

- Energy security, alternative energy and diversification
- Knowledge-based systems
- The challenge of a globalized economy: free trade, external investments and sovereign funds
- Environment and food security

2- Political challenges

- Regional instability
- Political reforms
- Sectarianism, extremism and political and security effects

3- Challenges to further integration

- Customs union and fiscal policy
- Security cooperation and foreign policy
- Expansion, institutionalized cooperation and the prospects for political unification
- The joint Arab economic projects

4- Political Economy and Social Challenges

- Identity issues
- Unemployment and training the national workforce
- Foreign labor and migration