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# *Oil Economies and Globalization: The Case of the GCC Countries*

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Key Words: Oil, GCC Countries, Gulf  
JEL codes: G18, Q32, O47

## **Introduction**

Over the past 50 years, world trade has increased at a faster rate than world output. Between 1948 and 1999, merchandise exports grew by 6% in real terms, compared to an annual average output growth of 3.7% (World Trade Organization, 1998: 33-36). This means that today, the countries depend more on trade than they had following World War II. In other words, the world economy is becoming more integrated and more *globalized*. So, what forces have been driving this phenomenon? Is globalization a positive force in the economic development of the third world countries? Does globalizations have any downsides and if so, how can the world community deal with the downsides? What are the challenges and opportunities with

which globalization presents the Gulf Cooperation Council (GCC) economies? How can these countries harness the winds of globalization in ways that help them realize their development goals?

The answers to these questions will provide a better understanding of globalization and its economic implications for the GCC economies and the rest of the world. The rest of the paper is organized as follows. First, there is a brief discussion of the major forces behind the increasing globalization of the world economy in recent decades as well as the alternative views of the implications of such phenomenon for the development of the third world countries. Second, there is a section on the degree to which the GCC economies are integrating into the global economy. Third, there is a discussion of the challenges and opportunities of globalization in the context of the GCC countries. Finally, there are some policy implications from the preceding analysis.

## **I. Globalization: driving forces and implications**

Two major forces drive globalization: technological change and the more liberal nature of trade and investment. Technological innovations in transportation and communication have shortened distances and reduced costs, leading to the enlargement of both the size and magnitude of global economic activities (Carbaugh, 2002:5-6). For example, since 1945 transatlantic telephone calls charges have fallen by 99 percent, average ocean freight charges by 50 percent, and air transportation costs by 80 percent (Dittmer, 2000: 32).

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The second force behind the increasing globalization of the world economy is the gradual reduction of different barriers of trade. This effort has been taking place under the banner of the General Agreement on Tariffs and Trade (GATT) and more recently within the context of the World Trade Organization (WTO), the entity that has succeeded the GATT as a platform for trade negotiations. The GATT was able to reduce the average trade tariff among industrial countries from 47% in 1947 to less than 10% in the early 70s and then to 5% from 1999 through 2000. Tariffs imposed by the industrialized countries on imports from the developing countries have also fallen, though at varying degrees. However, oil, which is the main source of income in the GCC economies, is still subject to high tariff rates in the industrial countries. (Moore, 2003: p.170). [1]

The GCC countries have also had their share of a more liberal trade since the early 1980s when the six of Arab Gulf countries (Saudi Arabia, Kuwait, UAE, Oman, Qatar, and Bahrain) formed a free trade area. In effect in 1983, this resulted in the elimination of all tariffs on local products and the placing of a “rules of origin” mechanism to avoid trade deflecting to the member with the lowest external tariff. [2] As a result, the ratio of intra-regional trade to the region’s total trade increased from 3.8% in 1980 to about 7.2% in 1994, then fell to almost 6% in 2000. In addition, the six countries reduced their tariffs on non-members to an agreed upon rate of a low 4% and a high of 20% with a few exemptions (IMF, 1998). In their most recent meeting held in December 2002, the six heads of state agreed to form a

customs union beginning January 2003 with a unified external tariff ranging between 5% and 10%.

This more liberal worldwide trade and investment has induced multinational companies to relocate part of their production processes from their home countries to different parts of the world either to reduce costs (labor and raw materials), in search of new markets, or both. As a result, it is becoming increasingly difficult and even misleading to identify a product with a given nationality. For example, Americans only manufacture 37% of the value of a car generated in the U.S, while at least nine other countries manufacture the rest. These other countries provide parts of the production process including assembly, advanced technology, design, marketing, data processing, and other factors (Carbaugh, 2002: 6). Similarly, eight other countries produce 35% of the Boeing 777 and 40% of the Airbus A330, a European-manufactured airplane, is manufactured in the U.S (Carbaugh, 2002:14). In addition, since the mid-1980s, Japanese firms have relocated the production of components that require standard technology and skilled labor to countries like Korea, Taiwan, Singapore, and Thailand. Industries that require low technology and low- skilled labor relocate themselves to Indonesia, the Philippines, and China (Dobson, 1993).

Does this mean that one should see globalization as a positive force in the development process? The answer to this question is a qualified yes. The definition and features of globalization are not in dispute among researchers and policy makers. What is in dispute, however, is the implications and impact of globalization on the development of the developing countries. On

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this last issue, there are two views today. [3] The first view states that if globalization proceeds according to policies prescribed by international institutions such as the International Monetary Fund (IMF) and the World Bank, it will ultimately result in a more efficient allocation of global resources and improve the welfare of the developing countries. By contrast, the second view's counterargument is that the current structure and policies of the international institutions that govern the globalization process are biased in favor of the industrialized countries and repugnant to the aspirations of the developing countries.

The latter group base their view on a number of arguments including the following. **First**, the industrial countries either through their financial contributions or through their strong bargaining positions dominate decisions in these institutions. **Second**, the agenda and rules of these institutions lean accordingly to serve the interests of the industrial countries (Khor, 2000, 7-23). **Third**, while the industrial countries have required developing countries to remove their trade barriers, industrialized countries have kept their barriers, and they have manipulated the rules of globalization to their advantage (Stiglitz, 2002:6-7). **Finally**, while globalization creates wealth, it is also a market-driven phenomenon that does not have adequate safety nets to deal with problems like poverty, the environment, the inherent instability of global finance, and other problems related to market failures (Soros, 2002: 1-29). A case in point is the East Asian financial meltdown that has plunged 20 million Asians into poverty, has worsened the welfare of about 40% of the Russian poor, exacerbated the rates of unemployment in Korea and Brazil, and has

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increased the Gini Coefficient of inequality in most Asian countries (Kim, 2000:25-27). In addition, the downturn triggered by this crisis has led to a fall in oil prices, thus reaching in its impact as far as the GCC economies (Stiglitz, 2002:108)

## **II. GCC 's Integration in the World Economy**

The past decades have witnessed an increasing integration of the GCC economies in the world economy. This is evident from a number of links. *First*, the high share of foreign trade in the GDP of the countries of the region reflects that these countries export oil to the rest of the world in return for their needs of capital goods, consumer goods, and other inputs. For example, in the year 2000, the openness ratio of the GCC region was about 78%, exports plus imports as a ratio of GDP, a large ratio by the standards of both the developed and developing countries (AMF, 2001). However, the merchandise exports within the GCC region for the year 2001 was approximately \$9,137 million or about 5.7% of these countries' total exports. This is a small ratio when compared to 46.9% in the East Asian Economic Caucus (EAEC), 61.3% in the EU and 55.5% in NAFTA (World Bank, 2003: 322). This meager merchandise trade consists mainly of crude oil imports by Bahrain's refineries from Saudi Arabia as well as a re-export of foreign goods from Dubai (UAE) to countries like Oman and Kuwait. As such, most of these countries' trade is with the traditional partners, such as the U.S, Japan, the EU, and the East Asian countries (AMF, 2002:135). Exports from the GCC region is dominated by crude oil, which formed about 88% of the total exports in the year 2000

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while the leading categories of imports for the same year were: machinery and transport equipment 39.5%, manufactured goods 17%, food and live animals 15%, and chemicals 9% (GCC Secretariat General, 2003). *Second*, since the oil bonanza of the 1970s, GCC countries have invested their oil surpluses in the rest of the world, particularly in the industrialized countries. Today, some estimates put these countries' foreign assets at more than \$500 billion of relatively liquid assets (Henry and Springborg, 2001:180). *Third*, because of their small population sizes, the countries of this region are very dependent on migrant labor force to implement their development plans. An Al-Najar article shows that migrant workers contribute to more than 72% of the total labor force and about 95% of employment in the private sector. (Al-Najar, 2001:196). *Finally*, the low tariff rates in these countries are expected to fall to less than 10 percent with the implementation of the customs union that began in 2003 (For summary information on the six GCC economies, see **Table 1**).

### **III. Challenges and Opportunities**

It is clear the GCC economies are highly integrated in the world economy. However, integration in the world economy and realizing the potential gains from such integration are two different things. There is evidence that the GCC economies have a disappointing record on many fronts with respect to integration. The experience of these countries over the past two decades points to a number of failures and weakness. The understanding of these failures and their rectification in the coming years will

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determine the extent to which the GCC economies benefit from their integration in the world economy and their ability to meet the challenges of development in the coming years. The failure of these economies were in the areas of growth, trade, unemployment, and investment.

### **Economic Growth**

While it is easy to initiate growth, it is far more difficult to sustain. This is true in the case of the GCC economies that have achieved very high rates of economic growth following the quadrupling of oil prices in 1970s, yet had the worst economic growth record in the last two decades by international standards. According to IMF, these countries have experienced a significant decline in real per capita GDP in the 1980s and very low growth in the 1990s. Many observers attribute this poor performance to the weak overall performance of the Middle East and North African Countries known as MENA [4] over the same period. For example, between 1980 and 2001 the region's real per capita GDP did not increase at all, compared to an average annual growth of 6.3 percent in the East Asian countries, and 1.3 percent in the other developing countries. (World Economic Outlook, September 2003: 65-67). In addition, there is some evidence that many of the MENA countries that had negative total factor productivity [5] were oil producing countries and had a poor economic growth record (Abed and Davoodi, 2003: 6-8). The growth prospects of the GCC economies in the coming decade are also not encouraging. The World Bank forecasts that the worlds economic slow down will negatively influence both oil prices and the exports of the region. In the



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next decade, the growth rate of the GCC region expects to be about 2.6% a year, implying a real decline of 0.4% in per capita income. This expected growth rate is less than the expected growth rate of 3.6% for the MENA region which in turn is lower than the expected rates for all other regions in the world except that of Sub-Sahara Africa.

## **Trade**

The GCC economies are small open economies that have relied on the rest of the world to sell their major source of income, oil, and buy in return almost all their needs of consumer goods, capital goods, and labor services. Thus trade liberalization has a number of advantages that can, in the proper economic policy setting, lead to a sustainable economic development of the region. One advantage includes providing the GCC countries with a market outlet for oil and oil related industries in which they have a comparative advantage and of exposing domestic industries to competition. The latter, in turn improves their productivity and efficiency, and provides them with access to improve and modern capital goods thus improving both the efficiency of their process and the quality of their products (World bank, 1999/2000: 52).

There is no doubt that the openness of these economies has provided them with a market outlet for their crude oil and hence the foreign exchange needed to import all their needs from the rest of the world. As such, trade was crucial in the countries' economic growth that began with the quadrupling of oil prices in the early 1970s. The share of the oil sector in the GCC region is

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about one-third of GDP and three-fourths of annual government revenue and export receipts (Fasano and Iqbal, 2002). Yet, the GCC 's economic growth is still not self-sustaining for two important and related reasons. First, one characterizes their growth by high terms of trade volatility due to the international fluctuations in oil prices [6]. Over the last thirty years, the volatility of real GDP growth in the GCC and other oil producing countries has been twice the average of that in the non-oil producing MENA countries. These countries' share of the international oil market fell by more than 50% over the last two decades (Abed and Davoodi, 2003: 3). Second, the GCC countries failed to achieve any diversification in their exports toward manufactured goods, as did other developing countries. For example, as a group, East Asian countries increased their share in world exports from 8% in 1965 to 13% in 1980, and to 18% in 1990. The major source of this growth was manufactured exports. So, what explains this disparity in the impact of trade on the development of the two regions? Why did trade result in the diversification of the economic structures in the East Asian economies, leading to a more stable and sustainable economic growth while the same did not take place in the oil-rich GCC economies? Is it the unique cultural and geographical circumstances of the East Asian Economies? Is it because the GCC countries do not earn their wealth through productive work (Zakaria, 2003:73-76)? In the view of many observers, the success of the East Asian economies is attributed to a combination of open trade and government expenditures geared toward human and physical infrastructure and heavy imports of capital and technology (World Bank, 1995: 52). A number of

theoretical and empirical studies on the relationship between trade policies and economic growth confirm this view, which points to two main conclusions. First is that no country has ever developed by simply adopting free trade regimes. Instead, success stories such as East Asia have been a result of opportunities offered by world trade and domestic investment and institution-building strategy (Rodriguez et al, 2001). The other conclusion is that a more liberal trade improves resource allocation by relocating factors of production from less productive to uses that are more productive. In the short run, however, a more liberal trade could have some adverse consequences on the economy, which include the rise in the number of unemployed, the exacerbation of poverty, and the fall in government revenues (Winters, 2000: 43-49). The implication is that a more liberal trade should be done in a gradual manner to minimize these costs and safety nets should accompany to mitigate its adverse effects. Indeed this is the approach that the East Asian countries adopted (Stiglitz, 2002: 60).

## **Investment**

Another element or avenue of globalization is the flow of capital, which has been faster than trade in recent years. Capital flow, especially foreign direct investment, can play a crucial role in the development of the region by providing it with management expertise, training programs, and advanced technology and market outlets (Borensztein et al, 1998: 115-135). Foreign direct investment also contributes to the expansion of output and exports. For example, in Korea, foreign subsidiaries accounted for between 65

and 73 percent of output in the electrical and electronics sector (Kozul-Wright and Rowhorn, 1998: 74-92). In practice, however, only a small number of developing countries have attracted the foreign direct investment. Since the mid-1990s, roughly \$1.5 trillion worth of capital flowed to the developing countries. Of that total, less than 5% went to the MENA countries and out of the FDI of the same total 5% flowed to the region (Lipsey, 1999). Brazil, Indonesia, Malaysia, Mexico, and Thailand have been among the top 12 recipients of foreign direct investment in each of the past three decades. Beginning in the year 1990 China managed to join the top 12 receiving countries and was able to attract about \$265.7 billion in foreign direct investment in the year 1998. The point of these figures is that the GCC region has failed to attract any form of capital over the last two decades outside of what may be those invested by the oil companies. On the other hand, the region was a net exporter of capital since the early 1970s and today the GCC as a group has more than \$500 billion in foreign investment. Thus, the GCC region did not only fail to attract foreign direct investment, but it has also failed to keep its own private and public capital. Many ascribe this failure to severe restrictions on the ownership of business by foreigners, weak infrastructure and financial markets, insecure property rights, the lack of macroeconomic stability and transparent economic information, and the limited investment opportunities.

## **Unemployment**

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Many expect globalization to lead to an increase in international migration, which like capital flows and trade offers potential gains to both the host country and the country of origin. This is so because the flow of labor improves the welfare of the migrants through higher earning income, their countries of origin through remittances, and the flow of labor benefits the host countries by providing them with the skills they need at lower cost. The experience of the GCC during the last three decades is one example of this phenomenon. Following the quadrupling of oil prices in the early 1970s, the GCC countries embarked on ambitious development schemes which could not have been implemented without the migrant labor force that began to pour into the region from all countries. Meanwhile, the educational system was growing at unprecedented rate [7]. Most of these graduates, however, were not equipped with the skills needed for an occupation where productivity determines salary and wages. Instead, they had the presumption, and thus training, for governmental positions, where wages are not related to productivity. As a result, the countries of the region began, in the early 1990s, to experience a growing unemployment rate among GCC nationals especially university graduates in a region where migrant workers contribute the vast majority of both the employment in the private sector, as well as the employment rates overall [8]. The estimates of this structural unemployment among nationals range between 420,000 and 475,000 national workers for the GCC region as a whole. This represents about 4.7 percent of the total labor force and about 17.8 percent of the total national labor force

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(Girgis, 2000:5). This open unemployment will, if not solved, be a source of tension in the region in the years following.

## Reforms

Most of the talk about economic and non-economic reforms by the governments of the GCC countries over the last two decades is, unfortunately no more than rhetorical statements meant to contain any kind of opposition and deflect the attention away from their failures. However, the GCC region is still lacking a number of crucial reforms in a number of areas. *First*, the size of the government in these countries is still large by international standards, accounting for as much as 60% of GDP and higher than that of employment. This predominance of the public sector has impeded the growth of the private sector and has contributed to inefficiency and corruption and to a huge bureaucracy. Even the limited role of the private sector, whose share of total investment in these economies does not exceed 45 percent, is concentrated in the non-traded sectors such as housing and real states at the expense of manufacturing and services. *Second*, governments are not elected and exercise absolute power on resources and decisions. The government subordinates legislative and judiciary power to that of the executive authority, and the views opposing government policies either are under suppression or ignored. *Third*, the quality of institutions is low and seems to be deteriorating over time because of the absence of accountability and transparency of procedures and policies which often comes with political participation and the separation of powers . *Finally*, regardless of the

importance of developing a tax system and privatizing public entities, little has been achieved on these two fronts in the GCC countries over the last two decades. This is due to the legitimacy problem faced by these governments caused by the government's still using a non-renewable resource (oil). These governments do not give their citizens a way to democratically participate in the day-to-day activities of the government, nor prepare the citizens for the post-oil era.

#### **IV. Policy Implications**

Since the fall in oil prices in the mid-1980s, the GCC countries embarked on a number of structural reforms aimed at attracting foreign investment, improving the efficiency of the financial sector, promoting the role of the private sector, and diversifying their economic structures. However, if one is to judge those reforms by their outcomes, one must conclude that the record of these countries after more than two decades of oil-based development is modest, along with some major shortcomings already discussed. Therefore, analyzing will shed light on future policy proposals and the underlying causes for these failures. What explains this disappointing economic record? Is it the high dependence on oil revenues, subject to oil price volatility? Is it the low quality of institutions? Is it the overvaluation of the exchange rate? It is combination of all of the above and more. This is because the economic growth of these countries is still determined by the volatility in oil prices, their revenues are dominated by oil, the non-oil sector's contribution to the GDP is meager, crude oil makes most of the revenue of

their exports, the economy is still dominated by the public sector, the banking system is replete with cronyism and corruption, unemployment among university graduates is on the rise because of inappropriate skills and the limited size of the private sector, the independence of the judiciary system is infringed upon by government officials, capital outflow is on the rise and foreign direct investment is insignificant while portfolio investment is almost non-existent because of the embryonic nature of the financial markets, and the administrative system is full of red tape and bureaucracy. How can these countries overcome these obstacles and create the conditions that will trigger a turn around, enabling them to meet the challenges of development in the new millennium? At the root cause of all these failures is the nature of governance in these countries. If not improved in the coming years, no other reform will have the slightest chance of success. The lack of this political reform may lead to more violence and extremism in the region. Of course, good governance is necessary but not sufficient and as such, other reforms should supplement it in the areas of finance, technology, and regional integration. Therefore, in what follows, a brief discussion of each of these reforms is in order.

### **A. Improving Governance**

Good governance is a necessary first step in realizing potential gains from a global world system because governments determine public policies and the allocation of society's resources. However, what is good governance? Good governance is best be understood by its manifestations. One is a society



where people are able to elect their representatives and hold them accountable and where the press is free from all forms of censorship except through the due process of law. Another is a high quality public services and an efficient policy making with a minimum of red tape and bureaucratic delays. Another manifestation is the preservation of the rule of law through the creation of an independent judiciary, the definition and protection of private property, and the fight against all forms of corruption (Kaufman et al, 1999).

Unfortunately, none of these manifestations of good governance is evident in the GCC countries. According to the Freedom House ranking of countries on the basis of their average rating of political rights and civil liberties, five of the GCC countries are classified as “ not free “, while Kuwait is the only country that is considered “ partly free” (Rivera-Batiz and Rivera-Batiz, 2002: 135-150) [9] According to the recent Arab Human Development Report, the Arab world as a region has the lowest freedom score among the seven regions of the world (UNDP, 2002:27).

## **B. Promoting financial stability**

It was argued earlier that the GCC economies did not only fail over the last few decades to attract foreign direct investment, but they have also exported their oil surpluses to other countries because these surpluses could not be invested productively in the region and the lack of the proper investment environment. What can the GCC countries do to discourage the flight of local capital and attract the flow of foreign direct investment, which

contributes to the structural transformation of their economies from oil-based to more diversified ones? To create such an investment friendly environment, the GCC countries will have to take a number of steps. **First**, they must set up a comprehensive regulatory system that defines the regulations for running an effective banking system and to abide by these regulations. **Second**, they should inject into their financial systems competition through the development of financial markets [10], the encouragement of other financial institutions, and by allowing the opening of foreign banks such as those originating in countries with highly developed financial markets. **Third**, the countries of the region must reduce the risk resulting from the flow of speculative money, which comes into and out of the country in a short time dependant on exchange rate movement. This often causes the collapse of currencies and the weakening of banking systems as the East Asia experience has shown. One way of reducing the risk of speculative capital on the GCC economies is by requiring that a fraction of all capital inflows not intended for productive physical assets be set a side for a certain period of time, thus raising the cost of short-term borrowing from abroad (Edwards, 1998). Another way of dealing with this problem is to maintain high levels of foreign currency resources, which can alleviate the worries of investors and make them less inclined to withdraw their capital in times of financial crises. Another alternative is to adopt a version of the Tobin tax on the inflow of foreign capital where the tax rate is inversely related to the planned time of investment (Mahbub ul Haq et al, 1996: 15-39). **Finally**, recent experiences, such as the East Asian crisis of 1997, have shown that long-term capital, in the

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form of direct foreign investment, is preferable to both commercial bank loans and foreign portfolio investment. This is so because it is less volatile and it brings technology, market access, and organizational skills to the host country. This kind of capital can best be attracted by having an educated labor force, an export oriented trade policies, a transparent governmental economic policy about the rights and obligations of investors, a legal system that protects the rights of domestic and foreign investors, adoption of international accounting standards, and a sound macroeconomic policy (De Mello, 1997: 1-34). Having a developed infrastructure with an updated information technology can also encourage the inflow of FDI. Dubai, in the United Arab Emirates, exemplifies a city that has tried to create such an investment-friendly environment. As a result, many multi-national firms have moved their regional headquarters to this prospering city on the Persian Gulf.

### **C. Technology and high skilled labor**

Many economists consider technical knowledge as the most important source of economic growth, for it enables a society to transform the resources at its disposal into the goods and services it needs (Todaro, 1994: 103). Unfortunately, developing countries, the GCC included, do not play any significant role in the creation of technical knowledge since industrialized countries produce eighty percent of the world's research and development (R&D) (World Bank, 1998/99:27). Developing countries such as the GCC will have to acquire knowledge from the industrial countries as a first step in their efforts to create knowledge domestically. This adaptation requires local

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research, which in turn requires highly trained resources. However, because the marketability of technical knowledge is limited by the fact that it is both *non-rivalrous* and *non-excludable* [11], the private sector alone can not produce enough of it. Thus is the need for a government role (World Bank, 1998/99: 27).

Recent data indicates that while industrial countries spend about 2.5% of their GDP on R&D, the average for developing countries does not exceed 0.5% of GDP. Therefore, the GCC should upgrade the efficiency of their educational systems (basic, tertiary, and vocational) to produce graduates that are capable of grasping and using the information-based technology. More emphasis should be put on those fields that contribute to growth such as mathematics, science, and engineering (World Bank, 1998/99: 40-45). Furthermore, these countries should increase their financing of serious research and training at universities and other research institutions especially in oil related industries. Gradually, the private sector should also be encouraged to play an increasing role in R&D and in training national workers.

#### **D. Pursuing Regional Integration**

Although rich in oil reserves, the GCC economies are constrained in their development effort by two obstacles: the paucity of natural resources other than oil and the small size of the market due to their sparse populations. These economies have lost a significant share of their oil market to other countries [12] they have failed to diversify on any scale as can be seen from their total dependence on crude oil exports, they have experienced increasing

budget deficits, and have begun to face the rising unemployment among nationals in a region that is highly dependent on migrant workers. Given this lack of progress towards achieving their development goals, the GCC countries can realize both static and dynamic gains, and thus improve their human and physical resources. However, realizing these gains without reducing the welfare of the rest of the world, their approach to regional integration is compatible with the principles and regulations of the World Trade Organization. Since the countries at hand have been in a free trade area since the formation of the council in 1981, the next step in their integration is the formation of a customs union. A customs union between the countries of the region can be both beneficial to the economies of the member countries and conducive to multilateral trade for many different reasons. **First**, members of the WTO are permitted to pursue any form of regional integration as long as they do not result in higher trade barriers against non-member countries (Article 25, WTO, 1999). This condition can be met by setting the unified external tariff equal to or lower than the current average tariff in the member countries. **Second**, a customs union between the six GCC countries will facilitate the negotiations with the WTO since these countries will have one team representing them instead of negotiating individually (Kahler, 1995). **Third**, regional integration will enlarge the local market and enable the member countries to take advantage of economies of scale and to industrialize more efficiently. An enlarged market increases competition between producers and attracts investment both from inside and from outside the newly formed regional bloc. **Fourth**, by deepening their regional bloc, the

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GCC countries can reduce the probability of conflicts among themselves and among themselves and their neighbors. Such integration raises the level of interaction and trust among the people of the member countries, increases the stake that each country has in the welfare of its neighbors, and increases the security of access to the neighbors strategic raw materials. **Finally**, regional integration is expected to expand trade between member countries since it implies the removal of tariff and non-tariff barriers to trade and it will also strengthen their bargaining position vis-à-vis the rest of the world (Lawrence, 1997).

## **Conclusions**

There are a number of conclusions that one may draw from this analysis. **First**, globalization describes a dynamic process whereby the world economy is becoming more integrated because of both technical advancement and a more liberal world trade system. However, these countries' gains and losses in the global economy will be determined by the way they deal with their failures over the past two decades which include slow economic growth, continued dependence on oil as the major source of income, weak and low quality institutions, and open unemployment among nationals. **Second**, globalization also implies that international institutions and international corporations will carry a greater weight than nation states in the shaping of the future of the world economy. That is, national economies as we know them today will have to undergo a significant degree of restructuring in a number of areas in order to be in compliance with the rules and regulations

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set by international institutions. For example, by joining the WTO, the GCC and other developing countries are committing themselves not to use quantitative restrictions on their imports, to reduce existing tariffs on other imports all of which are trade policies that were used in the past by both industrial countries and East Asian countries to industrialize. *Finally*, the existing structure of international institutions (voting, agenda, resources, etc) is biased in favor of the industrial countries; the rules of the game are set by the strong to perpetuate their dominance and to serve their interests. Consequently, the developing countries will have to initiate a number of reforms, to improve their standing in the international arena and to become active participants in the new economic order .

Table 1: Some Socio-economic Indicators for the GCC Economies, 2002

Country	Nominal GDP (\$ million)	Population (Millions)	Government Debt (% of GDP)	Nominal GDP Per Capita (\$)	Oil and Gas Exports (% of Total Exports)	Oil Revenues (% of Total Revenues)
SA	188,960	22.1	93.8	8567	81.7	78.0
Kuwait	33,215	2.2	32.9	15098	92.4	66.4
UAE	71,187	3.6	4.5	19613	45.7	63.3
Bahrain	8,506	0.7	30.3	11619	69.8	69.9
Qatar	17,321	0.6	58.2	28362	84.2	72.0
Oman	20,290	2.7	16.0	7515	77.2	76.7

Sources: IMF publications; AMF publications; and National publications.

Table 1 (Continued)

Country	Overall Fiscal Balance (% of GDP)	Proven Reserves (Billion Barrel)	Oil Current Account Balance (% of GDP)	Trade Integration Ratio (%)	R/P Ratio*	Non-Oil Fiscal Balance (% of GDP)
SA	-5.3	261.8	4.7	55.6	85.0	-29.5
Kuwait	20.6	96.5	20.9	72.9	134.0	-25.6
UAE	-9.3	97.8	5.5	125.0	124.0	-26.3
Bahrain	0.8	-----	0.3	123.1	15.0	-20.6
Qatar	5.1	15.2	13.8	81.6	15.0	-14.2
Oman	3.7	5.5	10.0	84.6	16.0	-29.5



\* The ratio of foreign trade(exports +imports) to GDP.

\*\* Reserve /Production (R/P) ratio gives the length of time the proven reserve will last at the current rate of production.

## ENDNOTES

1. For example , in 1992 , the EC generated about \$200 billion in tax on their consumption of oil products ( 11.8 million barrels per day) which is three times the \$74 billion that oil producers earned selling a similar amount of oil . In the same year , the Italian government earned on its oil consumption (2 million barrels per day) as much as Saudi Arabia earned in producing more than four times this amount ( Stainslaw and Yergin , 1993: 89) .
2. Here I am leaving out two dogmatic and diametrically opposed views , namely , the view that considers globalization to be synonymous with modernization , and the other which looks at it as a new form of colonization .
3. Here I am leaving out two dogmatic and diametrically opposed views, namely, the view that considers globalization to be synonymous with modernization, and the other which looks at it as a new form of colonization.
4. The MENA region comprises the Arab States in the Middle East and North Africa - Egypt, Syria, Saudi Arabia, Algeria, Bahrain, UAE, Djibouti, Tunisia, Mauritania, Morocco, Qatar, Yemen, Sudan, Somalia, Kuwait, Oman, Libya, Iraq, the Palestinian Authority, and Lebanon- plus Pakistan, Iran, and Afghanistan.

5. Total factor productivity (TFP) refers to the efficiency with which factors of production like labor and capital are used to generate growth. Empirical studies shows that TFP explains about 60% of cross-country variation in output growth.
6. For example, annual average oil prices increased by about 30 percent in 1995-96, fallen by 36 percent in 1997-98. and then more than doubled in 1999-2000 (Barnett and Ossowski, 2003)..
7. During the period 1960-1990, the average level of education in the MENA region increased by 140 percent, a growth rate higher than any other region in the world.
8. In 2001, migrants share of the total labor force in the GCC countries was roughly: 8.1% in Kuwait; 79.2% in Oman; 58.8% in Bahrain; 50.2% in Saudi Arabia; and 91.4% in the UAE.
9. Freedom house uses an index for the strength of democratic institutions that ranges from 1 to 7, with a value of 1 representing the strongest level of democracy and 7 the weakest. Countries that are ranked 1 to 2.5 are cataloged as “free,” countries with a score to 3 to 5.5 are considered “partly free,” and those with scores of 5.5 to 7 are “not free.”
10. Financial markets in the countries of the region are still in their embryonic stage. For example, in 2003, the total market capitalization of the financial markets of the six GCC economies were about \$159.2 billion and the number of listed companies is 248 (AMF, 2003)..

11. Technical knowledge is non-rivalrous because the use of this knowledge by one person does not preclude the use of this same knowledge by others. And it is non-excludable because once in the public domain, the creator of such knowledge cannot exclude others from using it.
12. For example, OPEC's share of world oil output has fallen from 70% in 1973 to less than 40% at the turn of the century.

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