

# The Gulf States' Political and Economic Role in the Mediterranean

**Valeria Talbot**

Research Fellow

Mediterranean and Middle East Programme

Istituto per gli Studi di Politica Internazionale (ISPI),  
Milan

In the last decade both economic and political relations between Gulf Cooperation Council (GCC) states and Arab Mediterranean countries have intensified. At the political level, the Gulf States have mainly focused their efforts on the resolution of the Israeli-Palestinian conflict. In particular Saudi Arabia and Qatar have committed considerable energies to sponsor peace initiatives for the resolution of regional conflicts. Let us remember King Abdullah's initiative in 2007, the Fatah-Hamas agreement brokered by Saudi Arabia in 2007, the Doha accord to overcome the political stalemate in Lebanon in 2008, Qatari mediation between Fatah and Hamas, to which the Qatari regime also provides financial aid,<sup>1</sup> and Saudi efforts to overcome the Lebanese political stalemate in 2010. Furthermore, bilateral cooperation ties have strengthened over the years. In the economic field, the GCC has played a key role in the development of the Mediterranean region thanks to foreign direct investment (FDI), which boomed between 2003 and 2008.

## The GCC's Role in the Arab Spring

The outburst of revolts in North Africa at the beginning of 2011 led the Gulf monarchies to play a more assertive role in the Mediterranean countries' affairs. The main interest of the Gulf States is to maintain

security and stability in the Arab region, from Morocco to the Gulf, since they fear that increasing instability would impact negatively on their regimes. Although the Arab uprisings caught the Gulf States unprepared, they reacted rapidly by engaging in an intense diplomatic and political activity. With the exception of Bahrain and Yemen (which is not a member of the GCC), protests in the Arab peninsula have been limited and have not escalated into mass revolts. Gulf monarchies have been successful in keeping domestic dissent under control – which is actually not very widespread – thanks to large public spending packages financed by higher oil revenues, fuelled by rising oil prices. For instance, Saudi Arabia, the world's largest oil exporter and the biggest economy in the region, has allocated a \$130 billion package, of which \$67 billion is to be spent on house-building.

The position of the GCC states vis-à-vis the Arab Mediterranean countries has not been homogeneous. After the initial shock brought on by the overthrow of regional allies in Tunisia and Egypt, they thought the best way to maintain stability in those countries was to sustain their transitional government both politically and economically. This did not stop Saudi Arabia offering safe haven to the exiled Tunisian President Zine El-Abidine Ben Ali. Furthermore, at the beginning of July the United Arab Emirates (UAE) President Shiekh Khalifa Ben Zayed al Nahyane expressed his support for the Tunisian interim government and revolution and manifested his intention to contribute to investment projects and to improve bilateral cooperation.

However, Gulf countries do not look favourably at political changes in other monarchies, since the ruling elites of the Gulf, in particular the Saudi royal

<sup>1</sup> See SCHUMACHER, Tobias. *Transatlantic Cooperation in the Middle East and North Africa and the Growing Role of the Gulf States*. GMF-IAI Mediterranean Paper Series 2010, July 2010, p. 16.

family, fear that tentative reforms in other monarchies could embolden demands for political opening at home, endangering the stability of their regimes.

### *Egypt*

Egypt's stability, because of its strategic location and key role in the definition of regional issues and equilibria, is crucial for the GCC. At the same time, both Cairo and the GCC share an interest in strengthening mutual relations. This explains why the Gulf States, in particular Saudi Arabia, will continue to sustain the country, even without Mubarak. Indeed, Egypt will receive the largest share of the Gulf states' financial aid: United Arab Emirates (UAE) has pledged \$3 billion (\$1.5 billion to establish a fund for small and medium enterprises, \$750 million as a grant to develop projects in housing and infrastructure sectors, and \$750 million as loans for other projects), Saudi Arabia \$4 billion in the form of soft loans, deposits and grants, and Qatar \$10 billion through investment and projects.<sup>2</sup> GCC aid should cover the Egyptian need for international funding – estimated between \$10 and \$12 billion – until mid-2012 after the interim government refused a \$3 billion loan from the IMF. Cairo's decision seems to be justified by the desire to maintain Egypt's economic independence from international institutions. Actually, it seems that Gulf financial aid would be preferable over IMF and World Bank loans because it does not require servicing. Furthermore, Gulf grants are not conditioned to an effective democratic political transition like the \$20 billion loans the leaders of the G8 in Daville pledged to Tunisia and Egypt in May 2011.

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However, disaccord has been emerging between Riyadh and the transitional government in Cairo on the new course of Egypt's foreign policy. The Saudis did not approve either mediation between Hamas

and Fatah in brokering a reconciliation agreement or its rapprochement with Iran, after decades without formal diplomatic relations. Although Cairo reiterated the improvement of relations with Iran would not be at the expense of its ties with the GCC, Saudi Arabia fears that a more assertive Egypt on a regional level would challenge its interests if it does not align with Saudi policies.

### *Libya*

Libyan authorities' refusal to permit foreign aid access to civilians was officially the reason why in March the GCC supported the decision of the Arab League to endorse the establishment of a no-fly zone. In addition to the crimes against civilians and the indiscriminate use of force, the aversion of GCC monarchies to Gaddafi and the desire to see his "illegitimate" regime wither away had influenced their response to the Libyan crisis. Qatar and the UAE gave a concrete contribution to the no-fly zone by deploying aircraft. In March, Qatar was also the first Arab country to recognise Libya's rebel government as the "sole legitimate representative" of the Libyan people, followed by the UAE a couple of months later. The crisis in Libya gave Doha the opportunity to play a more proactive role in line with the ambition to increase its weight at the international level.

Finally, GCC countries have provided the Libyan Transitional National Council (TNC) with financial aid – Kuwait and Qatar allocated nearly \$300 million – and a relief programme (food and medical supplies) from the UAE.

### **Jordan and Morocco in the GCC?**

One of the most interesting outcomes of the Arab Spring is the GCC's decision, under Saudi impulse, to include Jordan and Morocco in the organisation. This move has been considered as a part of the strategy of Saudi Arabia (the leading member of the GCC) and its allies – in particular the UAE and Bahrain, whereas Kuwait, Oman and Qatar had some reservations – to counter the challenges posed by recent regional developments: on the one hand, the rise of Iran and its attempt to extend its regional influ-

<sup>2</sup> The UAE pledged \$ 3 billion in assistance to Egypt, in *Almasry alyoum*, July 5 2011.

ence, taking advantage of the collapse of moderate Arab regimes in Egypt and Tunisia; on the other hand, the gradual emergence in the wake of the Arab Spring of reformist pleas as well as of liberals and religious forces that could endanger the stability of Gulf regimes.

Within this context it appears less surprising that during its thirteenth consultative summit on May 10 the GCC decided to accept Jordan's application, which was tendered fifteen years ago, and to extend to Morocco the invitation to join the club, despite the fact that it had never applied. Beyond the differences not only between Jordan and Morocco but also between these countries and the GCC, the purpose of this move would seem to be the creation of a "Sunni monarchy club" – that could become a "reactionary bloc"<sup>3</sup> – favourable to the status quo. In an unsettled security context, Jordan and Morocco's military capabilities would count for additional assets to counter regional threats outside the reach of the Gulf States' armed forces.

The GCC decision provoked different reactions both in Jordan and Morocco. In the Hashemite Kingdom, which shares a border with Saudi Arabia, many see the GCC initiative as a good opportunity to tackle their country's deep economic problems (i.e. large budget deficit, unemployment, poverty, low growth, lack of energy sources, rising energy costs, etc.). Nevertheless, reformist and liberal forces fear that putting Jordan increasingly under the Saudi umbrella could affect any reform process in the country. The same concern is shared by many in Morocco, where instead a bland reform process has been initiated through the approval by referendum of constitutional reforms presented by the King. This is expected to pave the way for a gradual redistribution of powers between the King and the government.

However, neither the timing of the accession process nor the kind of status they would be awarded – full membership (including the future monetary union) or partial membership (only of some GCC institutions) – are clear yet. At the beginning of July, talks started to evaluate Jordan's requirements for membership. Jordan, thanks to its geographic proximity to Saudi Arabia, smaller economy and population, is better positioned than Morocco to become a member state. In addition, Amman has shown great-

er interest than Rabat to join the organisation. Despite longstanding relations with the Gulf States, Morocco is closer to Europe both geographically and economically.

Before the GCC's decision, Riyadh announced a grant worth \$ 400 million for Jordan. The stability of the Hashemite Kingdom is of great importance for the neighbouring Saudi Kingdom, bearing in mind what happens in Jordan will inevitably affect its own stability.

Although the GCC initiative has, above all, a political purpose, the economic implications of the enlargement would be even more significant. From an economic point of view, both Morocco and Jordan (oil-importing countries) could benefit greatly from GCC membership. Indeed, this would increase the flow of foreign direct investment, trade and labour mobility and boost tourism and manufactured exports to Gulf region. However, the process might not be straightforward and is likely to take a long time because of the deep differences in economic structures, GDP and GDP per capita, budget deficit and population size (in particular of Morocco).

### **GCC-Mediterranean Countries' Economic Relations**

Economic relations between GCC states and Mediterranean countries date back to the first oil boom in the early 1970s. During the first two oil booms, remittances and public aid played a leading role, while during the 2003-2008 oil boom, GCC FDI towards the Mediterranean became more noteworthy and remittances recovered again after a low-level period. Over the years, the main recipients of remittances among Mediterranean countries have been Egypt, Jordan, Lebanon, and Syria. As for investment, GCC FDI has been fuelled, on the one hand, by a strong rise in oil prices, which generated a substantial investable surplus and, on the other hand, by a more favourable investment environment and by the rapid economic growth of the Mediterranean countries in recent years.<sup>4</sup> The reduction of GCC FDI toward the Mediterranean countries in 2009-2010 has to be considered as a consequence of the international financial and economic crisis rather than as a loss of

<sup>3</sup> BOUKHARS, Anouar. "The monarchy club." *Bitterlemons-international.org*, Edition 18, Volume 9, June 23, 2011.

<sup>4</sup> See TALBOT, Valeria. "GCC Economic Presence in the Mediterranean and the Outlook for EU-GCC Cooperation." *GMF-IAI Mediterranean Paper Series 2010*, December 2010.

the Gulf States' interest or a diversion of their investment flows.

## The Gulf States' economic wealth, due to higher oil prices and expanded production, is likely to spill over and benefit the rest of the region with both increasing FDI and trade exchanges

According to Anima/MIPO Observatory<sup>5</sup>, GCC FDI in Mediterranean countries in the period 2003-2008 amounted to €65.8 billion, that is to say 28.6% of the total amount of FDI – €229.8 billion – attracted by the Mediterranean region as a whole. GCC was the second investor after Europe: €85.9 billion (37.3% of the total investment amount). Mashreq is the main destination of GCC investment, and Egypt is the largest recipient country, having attracted €25.6 billion in FDI from the GCC, which is equivalent to 49% of total FDI flows in the country. Turkey ranked second, with €9 billion, followed by Jordan with €7.5 billion. The UAE was the main GCC investor, with €35.8 billion, followed by Kuwait, €11.7 billion, and Saudi Arabia, €11.1 billion. The UAE was the second largest investor country in the Mediterranean region as a whole after the United States with €37.3 billion, accounting for 15.5% of total FDI inflows into Mediterranean countries. According to the same source, in 2009 GCC invested €6.7 billion in the Southern Mediterranean region, that is to say 23.8% of total FDI to Mediterranean countries, declining to €5.3 billion in 2010, a share of 16.1%.<sup>6</sup> Egypt, Jordan, and Libya had the lion's share. Most of the Gulf companies' investment is in construction, transport, tourism, and telecommunication.

Compared to FDI, trade relations between GCC and Southern Mediterranean countries (Turkey excluded) as a whole are less significant, although not irrele-

vant. In 2010, trade exchange between the GCC and Mediterranean countries amounted to €17.3 billion, that is to say 2.6% of total GCC trade, reaching the same amount as in 2008 after a decline to €13 billion in 2009.<sup>7</sup> However, if bilateral relations are taken into account, Saudi Arabia emerges as Jordan's main trade partner, Syria's third, Egypt and Morocco's fourth, and Lebanon's sixth. The UAE also ranks among the top ten trade partners of Jordan, Lebanon, and Syria.

Undoubtedly, since 2003, GCC FDI has played a pivotal role in the economic development of the Mediterranean region. The GCC's estimated economic growth would continue to have a positive impact on the regional economic outlook. In fact, the latest International Monetary Fund projections (April 2011) have raised GCC growth to 7.8% from 5.2%. Thanks to higher GCC oil revenues, outward remittances from the GCC are estimated to rise from 65.6% in 2010 to 74.9% in 2011. At the same time, FDI outflow is forecast to increase from \$20.9 billion in 2010 to \$42.7 billion in 2011. In addition, GCC imports are forecast to rise by 18%, from \$491 billion in 2010 to \$578.3 billion in 2011. Public aid – mostly from Saudi Arabia, Kuwait and the UAE – is also expected to rise. It goes without saying that the Gulf States' economic wealth, due to higher oil prices and expanded production, is likely to spill over and benefit the rest of the region with both increasing FDI and trade exchanges.

In the medium and long term one of the most important implications of the Arab Spring might be the consolidation of the Gulf monarchies' stance and role in the Mediterranean region. While in the economic sphere, they are likely to further contribute to the development and the growth of Mediterranean countries, questions arise over their attitude towards political changes, considering the GCC states' inhomogeneous policy when addressing Arab uprisings. At any rate, Gulf ruling elites have to bear in mind that, although changes and reforms in the Arab countries might take a long time, the Arab Spring has initiated an irreversible process and the return to the *status quo ante* is highly unlikely.

<sup>5</sup> ABDELKRIM, Samir, and HENRY, Pierre. "Foreign Direct Investment in the Med countries in 2008", *Anima Investment Network, Study n. 3*, March 2009.

<sup>6</sup> DE SAINT LAURENT, Bénédict, LUÇON, Zoé, LAPUJADE, Jeanne, « La Méditerranée entre croissance et révolution. Investissements directs étrangers et partenariats vers les pays MED en 2010 ». *Anima Investment Network, Study n. 21*, March 2011.

<sup>7</sup> EUROPEAN COMMISSION, DG Trade. *Gulf Cooperation Council (GCC) Trade Statistics*, 8 June 2011, available at [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113482.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113482.pdf).