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DURHAM UNIVERSITY

**THE IMPACT OF GCC INTEGRATION ON THE
ECONOMY OF OMAN: AN EMPIRICAL STUDY
OF THE ATTITUDES OF THE BUSINESS
COMMUNITY TO THE CUSTOMS UNION**

By: Zahir Al-Hadhrami

**A thesis submitted for the degree of the Doctor
of Philosophy**

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School of Government and International Affairs

2006



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ABSTRACT

The aim of this study is to investigate representative views and perceptions of relevant elites regarding the state of GCC integration, the effect of the decision to move to a customs union, and the effects on Oman's economy and trade with the GCC. In particular, the views were explored on whether the Customs Union decisions could contribute to removing tariff and non-tariff impediments that prevent the free movement of goods between the participant countries. Also, how such steps in particular, will help the Sultanate of Oman to overcome its economic and trading challenges in its trading relations with the GCC countries.

The questionnaire method for data collection was used in this study by conducting a survey with Omani businessmen to find out their attitudes to some of the GCC economic integration issues. In addition, a focus group interview method was used with some Omani senior officials to obtain their views about a number of GCC economic integration problems, and to explore to what extent the official view coincided with that of the private sector.

The study revealed the positive perception of Omani businessmen towards GCC economic integration. It also showed that the majority of them believe that the founding of a customs union will help to eliminate all the obstacles hindering GCC intra-trade.

The findings show that most Omani businessmen prefer to attribute the reasons for importing from a number of markets of GCC countries to more than one factor, such as the huge markets of the neighbouring countries, the lack of information about international markets, the ease of mutual understanding and payment facilities and the absence of customs land border controls inside these neighbouring countries.

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DECLARATION

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DEDICATION

I dedicate this work to my One Arab Nation from the Ocean to the Gulf

LIST OF ABBREVERATIONS

CM	Common market
CU	Customs Union
EC	Economic Union
EU	European Union
FTA	Free Trade Area
GATT	General Agreement of Tariff and Trade
GCC	Gulf Co-operation Council
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
KSA	Kingdom of Saudi Arabia
LAS	League of Arab States
MU	Monetary Union
NTBs	Non Tariff Barriers
OR	Omani Riyal
TBs	Tariff Barriers
UAE	United Arab Emirates
WTO	World Trade Organization

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CHAPTER ONE

INTRODUCTION

1.1 Back Ground and Rationale for the Study

In 1981, six of the Gulf States which include Bahrain, the United Arab Emirates, Kuwait, Saudi Arabia, Qatar and the Sultanate of Oman, decided to establish a regional integration entity amongst them called the Gulf Cooperation Council (GCC).

According to this treaty, the participant countries decided to form a free trade area to act as a starting point in establishing economic integration and fostering mutual economic relations so as to meet the political and economic challenges facing these countries collectively.

The importance of this regional integration experiment includes two distinct features: first of all, the relative success of this experiment in comparison with several such attempts in third world countries, which witnessed a series of failures, especially amongst the Arab countries.

The continuation of the GCC as a regional integration entity for almost a quarter of a century, and the success of these countries, to a large extent, in achieving some of their economic and political goals, prompted many researchers to study and examine the factors behind their success and the possibility of this experiment being generalized and held up as a good example for regional integration in the developing countries because this experiment was nearer to the situation in those countries than the European Union integration experiment, which had been set up by the developed countries.



The second factor for the intensive interest in this process was the fact that the integration experiment among the GCC countries was different from those in the Arab world, in that it did not concentrate on political and ideological issues, like the Arab experiments that took place during the 1950s and 1960s, because the GCC experiment benefited greatly from the European Union experience by adopting the economic factor as the driving force for its regional integration.

This insistence on the role of the economic factor in linking the member countries, and in creating strong regional integration not only among the participant countries, but among their people and political and economic elites, was another factor in its relative success. This could also be regarded as a major reason for the success of any regional integration process, according to the neo-functional and transactionalist view.

In 2003, the GCC countries decided to adopt a further step in their economic integration process with their agreement to move from a free trade area stage to a customs union, so as to improve economic and trade relations between the participant countries and overcome tariff and non-tariff obstacles to the free movement of goods amongst the member states.

According to this treaty, the participant countries agreed to adopt a number of measures that are regarded as customs union principles. These include a common customs tariff against imported goods from outside the GCC countries, a common customs law, unified customs regulations and rules applicable to all member states, the free movement of goods between the GCC states without customs or non-customs restrictions and the treatment of the products of all the GCC states as national goods.

During the last twenty five years since the inception of the free trade area between the GCC countries, intra-trade among them has encountered several obstacles to the free flow of goods and played a role in limiting the intra-trade growth rate among them.

Several questions therefore pose themselves. (1) To what extent will the GCC countries manage to overcome the obstacles that have appeared since the inception of the customs union and how far will the creation of this union contribute to increasing GCC intra-trade? (2) To what extent will the inception of the customs union help the Sultanate of Oman to overcome its economic problems in its trade relations with the other GCC

countries, in which the balance of trade tends to be in their favour? (Indeed, this imbalance in economic relations between some GCC countries has happened because of intensive importation, which could be due in part to the differences in customs tariff rates applied in some of these countries, as well as to the variations in customs procedures resulting from differences in the customs formalities employed prior to adopting the Common GCC Customs Law.) (3) To what extent will the inception of the customs union help to end the situation which the Sultanate of Oman has endured for a long time, namely, the abandonment by some Omani businessmen of the practice of importing their goods indirectly through Omani ports, in favour of those of other GCC countries, especially Dubai, in the United Arab Emirates?

The genesis of this study lies in the researcher's interest in the above questions, borne in part of eighteen years as the head of the GCC section of the Sultanate of Oman's Customs Department. This position gave him a unique opportunity to represent the customs department in several meetings relevant to GCC economic integration, and to participate in many symposia and conferences related to the GCC customs issue. This long experience in the GCC field motivated the researcher to study the GCC economic integration issues in depth, especially those related to the free trade area, which was established between the GCC countries in 1981, and the customs union, which was set up in 2003. In particular, the focus of the genesis of this study arises from the researcher's interest in following up the tariff and non-tariff obstacles which were hindering intra- trade between the GCC countries during the free trade area stage.

The general interest underlying the current project, therefore, concerns the question whether the GCC countries, moving on from the free trade to the customs union stage, might contribute to overcoming these tariff and non-tariff impediments; and how such steps might advance the development of GCC intra-trade and help the Sultanate of Oman's exports, particularly by overcoming the obstacles it is facing in the GCC countries. How will the adopting of a common single tariff against imports from the outside world help to unify the economic environment that will prevail in the GCC countries? How too will such measures contribute to ending the differences in prices of goods and services in the GCC domestic markets, which could be attributed to the variations in customs tariffs applied in GC countries before the creation of the GCC customs union?

The angle from which the thesis approaches this general field of interest, is through the perceptions and views of two particularly relevant sets of elites: the business community and the officials involved in this area. This is for several reasons: (1) the effects of the Customs Union decision are not yet available in sufficient hard economic data; (2) theory suggests that elites can be crucial in the shaping of regional integration; and (3) their position as 'expert witnesses' may give us some indications about what the actual dynamics involved in the shaping of, and constraints on, GCC regional integration, and the effects for Oman, might be.

1.2 Significance of the Study:

Political and economic elites play a major role in determining the future of any regional integration process. The regional integration approaches, especially the transactionalist approach and the neo-functional approach, vigorously stress the role of these groups in leading and maintaining economic integration.

What is more, the failure of several regional integration experiments in developing countries could be attributed in some way to the attempts of some politicians to keep social institutions away from any participation in the integration process.

This study is the first systematic attempt to investigate the attitudes of Omani businessmen towards economic integration between the GCC countries. It is also an endeavour to derive from their views, and those of the relevant officials, possible pointers towards the future of this process, especially after the establishment of the customs union.

The study is also the first to try and examine the effects of the GCC customs union on the Omani economy and its contribution to the Sultanate of Oman's overcoming of its economic problems in its trade relations with other GCC countries – as perceived by the relevant business community and officials.

1.3 Research Methodology

The research method used in this study was based on a combination of quantitative and qualitative techniques. The researcher used two main methods to ascertain the perceptions of the two relevant elites identified: the questionnaire survey method to collect the primary data from Omani businessmen to find out their attitudes towards GCC economic integration, especially after the setting up of the customs union; and the focus group interview technique was also employed with Omani senior officials belonging to Ministries concerned with the GCC economic integration process in the Sultanate of Oman. Both methods were judged the most efficient and reliable way to reach the two audiences; the results of each are interesting in their own right, but also insofar as they allow us to discover to what extent the private sector view and the official one corresponded.

1.4 The Organization of the Study:

This thesis consists of eight chapters, three of them (Chapters two, three and four) relate to the theoretical foundations of the study. Three others: namely, five, six and seven, are devoted to the empirical study. Finally, Chapter one makes up the introduction and chapter eight presents the conclusions and recommendations.

Chapter one starts with an introduction to the thesis. It provides a statement of the problem, a rationale for the study, some research questions, and explains its significance as well as its research methodology and organization.

Chapter two reviews the regional integration theories that will form the background to the empirical study. It endeavours to estimate how proximate or distant the GCC economic integration process is to these ideas.

Several approaches were investigated in this chapter: namely, the federalist, the transactionalist, the functionalist and the neo-functional. More attention was paid to the transactionalist and neo-functional approaches because of their strong relationship with the regional integration process.

Chapter three investigates the economic integration concept and its five stages, which include the free trade area stage, the customs union, the common market, the monetary union and the economic union. In this chapter, more focus was given to the free trade area and to the customs union because GCC economic integration exists at these two stages at present.

Chapter four examines the establishment of the GCC and the political and economic factors for creating it in 1981. In addition, it sets down its objectives and its organizational structure.

Chapter five discusses the research methodology. This chapter describes all the measures that were adopted by the researcher for data collection when using the quantitative and qualitative techniques.

The chapter also discusses the statement of the research problem, research questions, objectives, difficulties, design and sampling technique, A profile of the questionnaire sample and the research instruments is provided in which the researcher explains the questionnaire technique which was used with the Omani businessmen during the period February 2004 to March 2005 to discover their attitude towards the GCC economic integration process in the light of the creation of the customs union.

In addition, the focus group interview technique which was used with some Omani senior officials to discover their views about GCC economic integration and to find out whether the official view corresponded with that of the private sector on particular issues discussed in the questionnaire.

Chapter six is devoted to the descriptive analysis of the questionnaire findings from the survey with Omani businessmen. This chapter consists of personal background characteristics, impressions and awareness about economic integration, the role of the customs union in increasing intra-trade between GCC countries, the effect of the customs union on the Omani economy, its effects on Omani exports to the GCC countries and the obstacles facing it. The last section discusses the probability of the GCC countries adopting further economic integration steps.

Chapter seven is dedicated to a discussion of the main fieldwork findings, all of which were presented in chapter six. They are discussed here in depth in order to evaluate and understand the factors behind the attitudes which were discovered in the field study carried out with the Omani businessmen concerning the economic integration process.

Chapter eight presents the conclusions and recommendations, which the researcher collected from the findings of the research, in addition to the recommendations of the study, and finally suggestions for further research.

CHAPTER TWO

REGIONAL INTEGRATION APPROACHES

2.1 Introduction:

This chapter will discuss regional integration theories. The aim in discussing these theories is to determine to what extent the GCC integration experiment is close to or far from the ideas and opinions that are introduced in all the different regional integration schools.

The chapter is divided into four main sections and a brief conclusion : the first will examine the definition of regional integration, in order to become aware of the dimensions of this definition, and to understand the forces that stand behind this relatively modern international phenomenon, in which the world has seen a nation state voluntarily surrender what was regarded as a symbol of national sovereignty to an international institution, in order to achieve some political and economic interest.

The second section is devoted to an examination of the conditions and aims of integration, where the perception of the interests and common values that bind the members are very important in determining the future of any integration process. The third section will examine different integration approaches, such as the federalist, the transactionalist, the functionalist and, finally, the neo-functionalist approach.

For the purpose of this research, there will be a greater concentration in this section on regional integration theories, such as the neo-functionalist and transactionalist. Whereas,

the federalist approach which is related to the nation state and the functionalist approach, which is relevant to international integration will not be examined intensively in this study though not to regional integration theories, and will be discussed only because many of their ideas were the basis for regional integration theories.

The fourth section will examine the process of integration, where the regional integration process takes off and the political and economic environment that should prevail before this process starts. Finally, there is the conclusion, which will summarize the results of this chapter.

2.2 Definition of Regional Integration:

World War II introduced numerous questions about the role of the nation state in maintaining peace and security in the international community. It also evoked many questions about the nation's ability to achieve its people's aspirations and hopes for prosperity and development.

In spite of the efforts that were exerted by some politicians and scholars to look for a suitable alternative to reduce the people's intense loyalty to the nation state, through their attempts to create a kind of a "supranational government" like the League of Nations, these ideas could not find their way to implementation under the pressure of the "nation state" which tried to exploit these organization as a tool to achieve its national interests (Saeed, 1986).

After World War II there were three main approaches that tried to address and explain this situation, each of which was adopted by some politicians and reformers to achieve the dream of peace and stability in the international community (Alemam, 1990):

The first idea called for interdependence: President John Kennedy insisted on this in Philadelphia 1962 in order to face global capitalist domination. This was repeated later in Moscow 1985 by the Soviet Union leader (Gorbachev) who insisted on global cooperation to face the problems threatening the whole international community.

The second idea emphasised cooperation between the states, belonging to any of the three blocs which had been established as a result of World War Two; the capitalist

states under United States' leadership, the socialist states under the Soviet Union and Third World countries. Each one of these blocs set up its own political and economic system and institutions to boost mutual cooperation.

The third idea called for regional integration and it came about as a result of the failure of both the nation state and the supranational government to achieve their political and economic goals. It thus required further cooperation between the states, as well as integration of the regional states in order to achieve common political and economic interests. This approach is the subject of the present study.

A regional integration study has political, social and economic dimensions, so the definition of regional integration, varied from one scholar to another according to the point of view that each scholar tried to focus on. As Streeten said, "it is often argued that the distinctions between economic, social, and political integration are superficial, and are interlinked in a complex manner" (Cited by Hodges, 1972:10).

Hass (1970:608) thinks that the study of regional integration is different from that of any other political unification. He reckons that regional integration is "unique and discrete from all previous systematic studies of political unification because it limits itself to *noncoercive* efforts. The study of federalism, national unification, nation and empire building is necessarily replete with attention to the use of force by the federaliser or the catalytic agent: the external colonizing elite, the military conqueror or the hegemony-seeking state".

In addition, (Hodges, 1972:11) considers that the study of regional integration tries to explain the motivation and aims which stand behind the "tendency towards the voluntary creation of larger political units, each of which self-consciously eschews use of force in the relations between the participating units and groups".

Furthermore, Hass stresses that the study of regional integration is "interested in tasks, transactions, perceptions and learning, not with sovereignty, military capability, and balance of power" (Hass, 1970:608).

This difficulty in distinguishing the study of regional integration from other political unifications has led to variation in defining regional integration among the political and

social scientists. In Puchala's description, it is compared with "the quest for a definition of integration to blind men being confronted with the task of defining an elephant" (Rosamond, 2000:12). In addition, part of this difficulty could refer to the relative modernity of the regional integration term. In fact, Machlup was unable to discover a single example of regional integration used before 1940s (Machlup, 1978).

As a result, the definition of regional integration has different meanings for the political and economic scientists. Some regarded it as the *process* "where states voluntarily give up certain sovereign power and evolve new techniques for resolving conflict between themselves, while others consider that integration is the terminal *condition* in such a process, where a new unit is created which subsumes several previously independent units" (Hodges, 1972:12). According to Hass, the "Political community, therefore, is a condition in which specific groups and individuals show more loyalty to their central political institutions than to any other political authority, in a specific period of time and in a definable geographic space"(Hass, 1958: 5).

Deutsch (1978:198) on the other hand defined integration as "a relationship among units in which they are mutually interdependent and jointly produce system properties which they would separately lack". On the other hand, he tries to define integration by stressing the aim of integration, so he defines it as "the creation of security communities (or zone of peace) among states in a region" (Cited by Rosamond, 2000:12). It should be state that Deutsch defined political integration as "the integration of political actors or political units, such as individuals, groups, municipalities, regions, or countries, in regard to their political behavior" (Deutsch, 1978:198).

Deutsch distinguishes between two types of "political community": "amalgamated security communities" and "pluralistic security communities". The former refer to unitary or federal states, whereas the latter refer to the relationships between sovereign states from which the possibility of recourse to use force has been banished; e.g. in Canadian-American or inter-Scandinavian relations (Hass, 1958:8).

Etzioni (1965:4) believes that a community should possess three kinds of integration if it is to be regarded as a political community: (a) an effective control over the use of the means of violence (though it may "delegate" some of this control to member-units); (b) a decision-making centre that is able to affect significantly the allocation of resources

and rewards throughout the community; (c) be the dominant focus of political identification for the large majority of politically aware citizens.

Hass in his definition tries to focus on shifting loyalty from the nation state to a new institution. As he stated: "Political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over the pre-existing national states" (Hass, 1958: 16).

Harrison, on the other hand, stresses the importance of central institutions with decision-making power, and therefore he defines integration as "the attainment within an area of the bonds of political community, of central institutions with binding decision-making power and methods of control determining the allocation of values at the regional level and also of adequate consensus-formation mechanism" (Rosamond, 2000:12).

In any case, the regional integration theorists have almost reached a consensus about refusing the use of force as an instrument to achieve regional integration. They insist on "a non-coercive process of community building at the international level. This is achieved by peaceful methods, therefore integration theory emphasizes the creation of new types of social, economic and political communities by the use of methods that are "quite different from the coercive efforts which have usually characterized the nation- building process and empire-building process in the past" (Hodges, 1972:11).

The question of definition is inevitably linked to that of what integration is for. Deutsch (1978: 240) has identified four main tasks that every regional integration should at least seek to achieve. These are as follows:

- (1) Maintaining peace (this can be shown by the absence of specific preparations for war among the political units, regions and population within it. This can be proved by data on the deployment of troops, weapons and military installations; by diplomatic records and budgetary data and by opinion data at the elite and mass level.
- (2) Getting greater multipurpose capabilities, this can be tested at least roughly by its total GNP, its per-capita GNP, and the scope and diversity of its current undertakings.

(3) Achieving some specific task, this can be indicated by the existence and growth of appropriate joint functions, joint institutions and joint resources and sacrifices devoted to these specific ends.

(4) Attaining a new self-image and role identity, which could be observed by the frequency of use of common symbols and by the creation and wide acceptance of new ones as well as by data on relevant elite and mass attitudes.

Regardless this variation in the regional integration definitions between the scholars, for this research purposes, the researcher would concentrate more on the role of the economic factor in boosting the economic relation between the participant countries, particularly through increasing the volume of GCC intra-trade and how this integration process will contribute to ensure a free movement of the production elements goods, labours and the capital. Thus, this research perceives regional integration within the limited meaning of it, and therefore search for economic integration between the GCC countries. This is due to the fact that political circumstances in the region does not allow any other kind of developments expected from regional integration.

2.3 Conditions of Integration:

The success or failure of integration depends partly on the *background conditions* prevailing within or among the political entities to be integrated (Deutsch, 1978:240). According to Deutsch, there are four conditions of integration: (1) mutual relation of the units to one another (this can be indicated by the relative volume and weight of transactions among them, such as trade, travel and mail and other communications; (2) compatibility of values and some actual joint rewards; (3) mutual responsiveness (including the presence of significant capabilities and resources for communication, perception, and self-steering.; and (4) some degree of generalized common identity or loyalty.

According to Hass, the decision to continue with integration or to oppose it depends on the perception of interest and on the concept of specific values on the part of the existing political actors. Rather than resting on the scheme of integration which posits “altruistic” or “idealistic” incentives as the conditioners of conduct, it seems more reasonable- assuming the pluralistic bases of politics here used – to focus on the

interests and values defended by the major groups involved in the process, experience showing that these are far too complex to be described in such simple terms as “the desire for Franco- German peace” or the “will to a United Europe”. As the process of integration proceeds, it is assumed that values will undergo change, that interests will be redefined in terms of regional rather than a purely national orientation and that the erstwhile set of separate national group values will gradually be superseded by a new and geographically larger set of beliefs (Hass, 1958: 13-4).

Inherent in this view of what fosters or hinders integration is a set of assumptions on how best to study and understand the phenomenon. This is what we turn to below.

2.4 Approaches to the Study and practice of integration:

The variation in image and the defining of regional integration among the social and economic scientists has led to the introduction of different approaches to the analysis and study of this phenomenon in the international relations associated with different emphasis on the role of institutions, elites and popular attitudes, as well as social communications in the creation of communities at the international level. Each of them tries to give his interpretation and analysis of the process, aims and methods which motivate the nation state towards a voluntarily renunciation of what is regarded as a part of state sovereignty and a voluntarily surrender of what is regarded as a symbol of a national independency to a supranational institution (Hodges, 1972).

The regionalist theorists distinguish between three important approaches which are mainly used to study regional integration: The federalist approach, which stresses the role of institutions; the transactionalist, which puts emphasis on transactions and communications between people as an indication of their attitude towards each other; and the neo-functionalist, which focuses on the ways in which supranational institutions emerge from a convergence of the interests of various groups in society (Hodges, 1972).

2.4.1 The federalist approach:

The emergence of widespread hostility and a great expansion of the spirit of envy among the European nations, which led to two world wars within two decades of each other, caused massive destruction and a great number of people to be killed. This situation provided the federalists with a historical opportunity to introduce their ideas and views about the European federation. In addition, according to Laffan, the United States of America's experiment with the federal system was a source of inspiration for many European scholars and politicians federalists, who were committed to the establishment of a "United States of Europe" (Laffan, 1992.).

Hass distinguishes between two groups of federalist theorists: an "ideological group" interested in developing a theory of action designed to realize a regional federation, as opposed to a group interested in observing and following patterns of federal integration. Moreover, the second group "has also been active in the driving of constitutions for potential federal unions" (Hass, 1970.p624).

According to Hass, the two groups agree on many things: They were both interested, for instance, in the primary importance of establishing institutions, so they expended great effort in the writing of constitutions and in learning from the federal historical experiments in the world, such as the federal entities of the United States, Switzerland, and West Germany.

The federalists were engaged with the merits of rival methods of representation and elections instruments and the best way to apportion power between the federal and local governments; and they laid stress on the checks and balances between the three branches of authority (executive, legislative and judicial power). Moreover, they were both inspired by the dual character of federalism; "it can be used to unit hitherto separate jurisdictions but it can be also applied to breaking up overly centralized national governments. Federalism, in short, seeks simultaneously to meet the need for more effective governmental action in some domains (through centralization) and the democratic postulate of local control and local autonomy (through local decentralization)" (Hass, 1970: 624).

According to Laffan (1992), federations are typically relevant to heterogeneous societies because they join the advantages of collective endeavour with local autonomy.

Different terms are used to describe the union of states—most notably confederation and federation. In fact the distribution of power between the central government and the member states of a federation, which reflect the degree of sovereignty that the member states are ready to surrender for the union, was the main criterion, used by federalists to distinguish between a federative union and a confederative union.

In a confederation the member states accept the “collective discharge of limited functions while maintaining a high degree of autonomy and sovereignty, whereas in a federation there is one sovereign state and the locus of external sovereignty is at the higher level. Historically, confederations have been stepping stones to federations; the U.S and Swiss confederations based on security and defence became federations, as did the German *Zollverein* an economic union” (Laffan, 1992:7-8).

Hodges thinks the primacy of politics— that stable political institutions for a regional federation can be attained by an act of political will, is the central assumption of the federalist approach and that this political consensus does not depend for its success on the prior resolution of social and economic differences. Therefore, the federation is regarded as a political solution to the undeniable diversity of interests, which exist in area such as West Europe (Hodges, 1972).

Laffan determined four common characteristics that a federal system should have; these are: First, the constitutionally dividing of legislative and administrative power between different levels of government. Second, a bicameral legislature is common; with one house, and usually the upper house represents the interest of the states. Third, federations tend to have rigid constitutions, which mean that any constitutional amendment could not be made except by a super-majority in order to protect the rights and interests of the member states. Fourth, judicial review, involving a constitutional court, is critical, involving the dispute about powers between the different levels of government.

In spite the role played by the federalists in providing a practical solution derived from actual experiments, especially regarding the distribution of the power between the federal authority and the member states and their ability to agree regarding the degree of sovereignty, the federal approach has been criticized by some theorists concerning its adopting of incremental steps towards regional integration and its concentrating on the

rapid building of a federal entity, regardless of the conditions and the process of integration surrounding such a process. O'Neill (1996) thinks that defining formal outcomes and recommending suitable institutional frameworks for balancing natural social diversity with the requirements for a just governance has until quite recently always been more federalist-preoccupied than it has been with uncovering the process or sociological dynamics that lie behind political change.

Moreover, in spite of the efforts exerted by federalists in stressing the importance of institutions and their constitutional role in the establishment of regional integration, Hass contends that "The theorist observers among the federalists have tended to lose their identity as a clear-cut approach to questions of regional integration...They are less inclined to talk about popular needs than about an optimal distribution of tasks among units of government in a setting of growing popular participation "(Hass, 1970:625).

2.4.2 The transactionalist approach:

The followers of this approach stress the importance of transactions and communication, which are widespread among the people of a specific area, in establishing regional integration.

The transactionalist approach, in contrast to the federalist, does not engage in creating any legal or institutional framework but rather with the necessary conditions for the development and preservation of a sense of community among the people of a given region. Its main principle is that communication is the only way to achieve the mutual relation and responsiveness, which "distinguish organized social groups from random aggregations of individuals" (Hodges, 1972:14).

In fact the transactionalist approach stresses the importance of mutual relevance and responsiveness in creating regional integration between different nations. According to this approach, the more one nation state interests another, the more relevant they are to each other; such mutual relations, however, may not lead to achieve integration unless there is also mutual responsiveness, which may be defined as the "ability to respond satisfactorily to the demands expressed in transactions between the nation states" (Hodges, 1972:14).

The transaction approach focuses on the role of political, social and economic communications and transactions among the people which lead to the creation of interactions and relations, which help to create peace among them and lessen the probability of using force between nations.

Deutsch distinguishes between two kinds of communities: the "integration" and the "security community" which are more different in meaning and terms than "political unification" and "political community" and he thinks that not all political communities are security communities in that the former "may include among their facilities for enforcement some organized preparations for war or large-scale violence among their participants".

Integration and security communities in Deutsch's definition exclude such preparations for war and, on the contrary, "imply stable expectations of peace among the participating units or groups, whether or not there has been a merger of their political institutions" (Deutsch, 1972:33). The security communities seem to be the model favoured by Deutsch in that they are more likely in practice to grow stronger than the amalgamated security communities.

Rosamond contends that the "Amalgamated communities are more vulnerable to a number of potential destabilizing factors. These include increased military burdens (on the whole or the component units), very rapid increases in social mobilization and political participation within component units, relatively swift shifts in social differentiation, a decline in administrative capabilities, a closure of political elites and a dissonance between government action and societal expectations" (Rosamond, 2000: 43).

According to communications theory, an intensive form of communication between national units will lead to a closer "community" if the loads and capabilities are under control and remain in balance. In addition, a number of familiar postulates like trust, friendship, complementarity and responsiveness are likely to accrue. Hass argues that, these ideas of communication theory are based on a specific hypothesis, namely: "if the rate of transaction is such and so, under conditions of balanced loads and capabilities,

then elite responsiveness increases. If elite responsiveness does increase then a security community will arise..." (Hass,1970: 626).

According to Deutsch, there are five of fundamental integrative processes which must be achieved to secure a success for a security community (Deutsch, 1972:36-7):

First, psychological role-taking: a security community, might be approached in theory, by seeking to achieve an increased acceptance and use of the same or equivalent patterns of living, thinking and feeling among the people who are members of the various political units that are to make up the security community, so as to produce either a common "we-feeling" among them.

Second, assimilation: This approach comes about when the participant actors (individuals and political units) become as similar as possible in language, culture, economic and political behaviour and institutions. Deutsch, identifies two means to achieve such similarity: cultural learning, which spreads common behaviour among the individuals of the participating states, and cultural unlearning, which depends on forgetting the ideas that making the people different.

Third, mutual interdependence: this approach depends on the dividing of labour between unamalgamated but highly diversified units, for example, between states specializing in paying for the protection of a military power and those providing such protection.

The fourth approach towards a security community is that of increasing a mutual responsiveness among the political units which "need be neither amalgamated nor otherwise strongly dependent upon each other.... They might have acquired the political habits, practices, and institutions necessary to preserve one another's sensitive spots or vital interests and to make prompt and adequate responses to each other's critical needs".

Fifth, simple pacification: This approach would be achieved when the participating units voluntarily or by force relinquish war, accompanied by disarmament and the general acceptance of some pacifist ideology.

The main assumption of transactionalist work in integration was that the existing sense of community among states would be a function of the level of communication between them. The way to international *Gemeinschaft* was the building of a network of mutual transactions (Rosamond, 2000: 44).

There are two major patterns of communication that transaction analyses of regional integration are looking for. Firstly, a high number of international transactions within the region over a wide range of activities in the political, economic and social domain. Thus the increase in size of such transactions between a group of states would indicate that the region was a potential international community. Secondly, for a community to exist, a higher number of mutual relations among the potential members should exist between them than among non-member countries; so the formation of a community is characterized by the rise in differences between the amount and range of transactions within the prospective community and the transactions by the community with the outside world (Hodges, 1972:14).

In spite the great contribution of the transactionalist approach in explaining and describing the regional integration phenomenon, especially its contribution to the role of increased mutual relevance in creating a feeling of secure communities among the participant peoples and nations, the transactionalist approach was criticized with regard to its disability to build a solid pattern which could describe and predict the regional integration stages and the factors controlling it at every stage of regional integration. As to the communications approach, it "has sought to explain retroactively rather than to predict". It does not mention when and how trust and responsiveness among actors, elites and masses take place and spread. The transactionalist approach does not explain to the reader "who are or what is needed to point the way? Politics, in the sense of demands, negotiations, institutionalization, evolution of tasks, is not really part of the approach since the content of message is not always treated" (Hass, 1970:626).

2.4.3 The functionalist approach:

The functionalist approach is an international rather than a regional one, but the ideas for this approach were a source of inspiration for many political and economic theorists, and it has played a major role in formulating the ideas and approaches of many regional

ideologists and theorists, especially neo-functionalist theorists who developed the functionalism ideas from the international order level to the regional integration level. Therefore, the researchers of regional integration theories were unable to ignore this theory, especially before discussing the neo-functionalist theory.

According to the functionalist approach the rapid and intensive global exchanges in the technical, communications and commercial fields had motivated an organizational response to better coordinate and control these transactions long before European integration become a realistic expectation (O'Neill, 1996). For instance, functional organizations such as the International telegraph union which was established in 1865 and the agreement on Universal postal measures (1875) had already succeeded in coordinating interstate relations on a voluntaristic and intergovernmental basis. These developments were "in essence, a managed response to the onset of a global political economy" (O'Neill, 1996).

Mitrany introduced his ideas about the important role of international functional institutions in developing the relationship among international community members. He started from the assumption that the "nation state" was the main threat to World peace, and so he saw that the creation of international organizations to serve human welfare and fulfil its needs could be used as a means to reduce the strong loyalty and popular support for nation states and thus diminish the possibility of war. He believed that in modern political systems there was a growing number of technical functions which national governments were unable to perform effectively, and that there was a need for international collaboration for them to be performed successfully, such as in the control of air transport, or the prevention of disease (Hodges, 1972:21).

The functionalist approach is based on the assumption that social and economic relations should as far as possible be separated from political and security issues, if successful integration is to be achieved. Thus, Mitrany has stated that: "Any political scheme would start a disputation; any working arrangement would raise a hope and make for confidence and patience. The functional way may seem a spiritless solution- and so it is, in the sense that it detaches from the spirit the things, which are of the body. No advantage has accrued to anyone when economic and other social activities are wedded to fascist or communist or other political ideologies; their progeny has always been confusion and conflict" (Cited by Lakkis, 2003).

Hodges (1972) thinks that the strategy of the functionalists was to encourage the governments to abandon the performance of these technical tasks to non-political technical experts of international organizations and the success of these international organizations in performing these tasks would encourage the governments to allow for more collaboration in other sectors.

It should also be noted that the general public support for such international organizations would rise if they observed the role of such organizations in increasing human welfare. "Thus the men would learn that international collaboration could satisfy their needs without the traditional rivalry of the nation state, and the focus of human activity would be shifted away from the political issues which divide states to the technical problems which all states have in common. In this way the transactional web of international welfare organizations would gradually be created, and nationalism would be replaced by allegiance to the world community- a process which Mitrany called 'federalism by instalment'" (Hodges, 1972:21-2).

The functionalist approach has been criticized concerning a constant problem with Mitrany's model, as he believes in a narrow technocratic solution to sophisticated political problems. His belief in the role of decentralization, technocratic cooperation and international administration as a source of peace and welfare gave a wide justification for neo-functionalists to criticize the functionalist approach (O'Neill, 1996).

2.4.4 The neo-functionalist approach:

The functionalist ideas about creating international functional organizations to meet the rapid growth in human needs, resulting from the rapid development of transport and communication and the role of these forms of communication in producing mutual understanding between people, may lead to the creation of security and peace for the international community, in such a way that the members of international organizations may progress from success in one field to success in another..

These notions were an important resource for neo-functionalists, who employ them efficiently in studying and analyzing the regional integration phenomenon. Neo-functionalists think that welfare tasks imply the allocation of limited resources between competing demands and this is a political process which involves the exercise of power which is inseparable from welfare (Hodges, 1972).

The neo-functionalist put stress on the development of a collective decision-making process, and the way in which governmental and nongovernmental elites change their attitudes and organization "as the locus of decision-making shifts from the national to the supranational level" (Hodges, 1972:21). Neo-functionalists, on the other hand, stress the importance of the common values that prevail among the people of the integrated region. Hass, argues that "As the process of integration proceeds, it is assumed that values will undergo changes, that interests will be redefined in terms of a regional rather than a purely national orientation and that the erstwhile set of separate national group values will gradually be superseded by a new and geographically larger set of beliefs" (Hass, 1958: 13-4).

The neo-functionalist approach, in addition, stresses the role of supranational organizations in achieving the interests and the welfare of the participants, in contrast to the nation state. As Hass maintains "Supra-nationality, not federation, confederation or intergovernmental organization, seem to be the appropriate regional counterpart to the national state which no longer feels capable of realizing welfare aims within its own narrow borders, which has made its peace with the fact of interdependence in an industrial and egalitarian age. It represents the method adopted to secure maximum welfare, including military security, for a post-capitalist-state" (cited by O'Neill, 1996:40).

In fact the 'supra-nationality' idea occupies a broad space in neo-functionalist thinking and it plays an elemental role in the neo-functionalist approach, in which the nation state delegates part of its jurisdiction to a supranational institution to perform some common functions on behalf of the member states and these institutions exercise this power through an efficient "decision-making" system to fulfil its tasks. As Hass has stated, the "decision-making process, in an institutional setting, stimulates interest groups to make themselves hard and political parties to work out common position; it

creates pressure on senior national civil servants to get to know and to establish rapport with their opposite numbers” (O’Neill, 1996:42).

Governmental and nongovernmental ‘elites’ occupy a broad space in neo-functionalists theory and regard it as the driving force for regional integration, especially if these elites start to harvest the fruits of integration, which motivates these groups to practice an internal pressure against the national governments in the interests of the supranational organization, which leads to a more intensive integration process. “Elites are the leaders of all relevant political groups who habitually participate in the making of public decisions, whether as policy-makers in government, as lobbyists, or as spokesmen of political parties. They include the officials of trade associations, the spokesmen of organized labour, higher civil servants and active politicians” (Hass, 1958: 17).

It should be noted that the spillover concept is a major pillar of the neo-functionalist approach. As explained by John McCormick, it is “a phenomenon in which joint action in one area will create new needs, tension and problems that will increase the pressure to take joint action in another” (Lakkis, 2003:18). As the process continues, it becomes more politicized and drives high political issues such as security, sovereignty and foreign policy to more integrative decisions with each other towards the regional grouping (Lakkis, 2003). Hass contends that the “end result of a process of political integration is a new political community, superimposed on the pre-existing ones” (Hass, 1958: 16).

Despite the efforts exerted by neo-functionalists to develop their theory, in order to avoid the functionalist approach’s shortcomings, there are some criticisms of this approach evoked by the regional integration theorists and even by the theorists who belong to it like Hass, who criticized the neo-functionalist position because of its limitation in its approach to “the modern pluralistic industrial democratic polity”. That source provides a logical link for the separate variables discovered in the neo-functionalist approach; but using it in developing countries “has so far sufficed only to accurately predict difficulties and failure in regional integration while in the European case some successful positive prediction has been achieved” (Hass, 1970:628).

It should be stated that the spillover was the driving force for regional integration, according to neo-functional theory, because of the “stagnation within the European community and apparent limits to the willingness of governments to transfer an ever-widening of policy responsibilities...The expectation that national politicians and officials would transfer their loyalty to central institutions was not fulfilled” (Laffan, 1992: 10).

2.5 The process of integration:

Numerous social and economic scientists focus on an initiation period when studying the beginning of the process or the establishment of the polity, and they usually look at the signing of the treaty, the granting of the charter, or the founding convention as the birthday of regional integration (Etzioni, 1965).

According to Etzioni the take-off process of integration starts when a process has “accumulated enough momentum to continue in its own, that is, without the support from non-member units...and that calls attention to the fact that for many processes the initiation stage and the take-off stage are not identical” (Etzioni, 1965:51). Hass, on the other hand, thinks that sectoral integration is a first step towards integration and he regards it as a “living laboratory of the measures necessary for achieving it” and the “spillover” is the driving force, which will allow the integration process to take off. As Hass maintains, “The spillover effect in sector integration is believed to lead inevitably to full economic unity” (Hass, 1958:283). Whereas, Deutsch thinks that the process of integration that takes off and attains a politically secure community, often begins around a “*core area* consisting of one or a few political units which are stronger, more highly developed and in some significant respects more advanced and attractive than the rest”(Deutsch, 1978:245). While, Kissinger looks to the military alliances as the main force to link states together, he argues that NATO can play as an effective take off for the unification of the fifteen member states (Etzioni, 1965).

2.6 Conclusion

Despite the fact that these regional integration theories were born in western countries, and designed as a response to political, social and economic situations in the developed countries, employing these theories to interpret and analyze third world regional integration will be difficult without some modification or amendment in these assumptions and conditions to meet the conditions and developmental level of the developing countries.

From evaluating the different integration theories, the following conclusions may be summed up as follows:

The federalist approach, despite its real success in places like the United States, Switzerland and the United Arab Emirates, which consists of seven Emirates, it cannot be applied to the GCC, because it includes countries with huge differences in power, national resources and aspirations and demographic structure. Particularly it is very well known that this regional block includes relatively new independent states which are very sensitive towards their national sovereignty, in addition to the historical and political claims of some GCC countries about the political borders of some participant countries. All these factors resulted in using this approach as an instrument for studying the GCC regional integration process.

As mentioned earlier, the functionalist approach will be excluded from this thesis, for two reasons: First of all, this approach is not a regional but rather an international one and its ideas were introduced to solve the problems of the international community by creating supra-national institutions to face the problems that could not be faced by the nation states individually. Therefore, this theory cannot be applied to the GCC experiment which was set up to respond to regional needs and to solve the common challenges that these countries face.

In addition, this functionalist approach came with an ethical view that places it in a position relatively far from the actual situation. In fact, it was brought into being in order to dilute the role of the nation state, which was responsible for several wars both in Europe and throughout the world. In other words, it was an attempt to create new loyalties rather than the loyalty which was at the core of the nation state.

In the transactionalist approach, its followers focus on the importance of transaction and communication instruments, which are widespread amongst the people of a specific area in establishing the regional integration process. This approach will be used in this study to examine the volume of transactions and the level of communication among the people themselves and the GCC member states, particularly the level of economic and trade relation, which was the reason for this integration process taking off, with the establishing of a GCC Free Trade Area and later a Customs Union among the member states. It should be stated that this approach will be used to interpret and analyze the phenomenon of the intensive development of the role of the tourist sector in the GCC regional integration process and the factors behind it.

The neo-functionalist approach will be used in the following chapters to examine the GCC organizational structure and the role of its supra-national organizations in managing and leading the economic integration process. This theory will, also, be used to examine the decision-making process in the GCC organizations and the nature of the powers that are delegated to the GCC institutions, especially the role of the GCC General Secretariat. In addition, the ideas of this approach about the role of 'elites' in activating the regional integration process will be applied so as to find out the attitude of Omani businessmen towards the economic integration process amongst the GCC countries and through the focus group interview that was conducted with senior officials in the Sultanate of Oman about several integration process issues to discover to what extent the private sector view coincided with the official one.

CHAPTER THREE

ECONOMIC INTEGRATION: CONCEPTS AND STAGES

3.1 Introduction

The economic sector plays a major role in leading and orienting the regional integration process in different regions of the world, and the countries which adopt this sector to lead their integration process showed unprecedented success. These experiments revealed the ability of this sector to create a huge net of interests and strong mutual relations amongst the participating countries.

This chapter is purposely devoted to discussing the economic integration process. It consists of six sections: the first examines the economic integration concepts and definitions. In this section the researcher tries to draw a clear picture about the definition of this term and its political and economic dimensions. The second section is devoted to discussing international trade and economic integration, and it is here that the researcher presents some international trade theories and their relation to the economic integration process.

The third section examines economic integration stages, which are divided into five subdivisions: the first discusses the Free Trade Area; the second is devoted to discussing the Customs Union; the third examines the Common Market; the fourth, the monetary union and, finally, the economic union. Especial care will be given to the free trade area stage and the customs union, as a result of which the GCC countries spent over twenty two years on the free trade area, and almost three years on the customs union stage. The monetary union, which still remains to be the only major proposal, will hopefully happen in 2010.

The fourth section examines economic integration in developing countries, while the fifth discusses economic integration and WTO rules. This section considers whether the establishing of a regional free trade area and customs union follows WTO principles. The fifth section discusses economic integration and sovereignty. In this section the researcher will try to highlight the sovereignty, which was behind the failure of many regional integration experiments and which still represents a huge challenge to the regional integration process in the future. The last section is the conclusion which will sum up the results and outcomes of the chapter.

3.2 Economic Integration Concepts and Definitions:

In the post World War II period, the economic integration concept attracted numerous countries in different continents to form a regional economic integration under different names such as “regional economic integration” or “economic regionalism” (Pelkmans, 2001: 2).

Regional trade integration had seen two waves which have played a major role in the impetus towards the integration of different countries around the world: The first wave came after the European experiment in the early 1960s in the light of the establishment of the European Common Market. This experiment motivated the regionalist principles which spread throughout Africa, Latin America and other parts of the third world. The second came in the middle of the 1980s which saw the inception of huge economic integration blocs, in which the United States became a major player after the establishment of a free trade area (FTAs) with Canada and Israel. Also in this period the United States launched a proposal for a hemispheric FTA with the Enterprise for America Initiative (EAI) and later it concluded the agreement for the North America Free-Trade Area (NAFTA) with Canada and Mexico. At the same time the European Community expanded to include new members: Greece, Portugal, and Spain from southern Europe. Norway and Sweden from northern Europe (Melo and Pangariya, 1992:3).

Economic integration has different meanings and varies in concept from one economist to another, according to the viewpoint that each theorist tries to focus on. The Oxford

English Dictionary, for instance, defines integration as “combining parts into a whole” (Machlup, 1976: 61). But, according to Balassa, the term “economic integration” does not have such a specific meaning in the economic literature, because some authors include social integration and different forms of international cooperation in the concept, which makes some scholars consider any form of trade relation between independent national economies as a form of integration (Balassa 1965:1).

Robson, on the other hand, thinks that international economic integration - often termed regionalism - could be defined as “the institutional combination of separate national economies into larger economic blocs or communities” (Robson 1998:1). Swann’s definition of economic integration is not far from Robson’s, (Swann 1996: 3) who defined economic integration as a combination of two or more separate economies into larger arrangements. It should be noted that the term, in some international trade specialists’ view, denotes “a state of affairs or a process which involves the amalgamation of separate economies into a larger free trade region” (Elagra 1999:1).

Some authors distinguish between economic integration and economic co-operation. Ghuntus contends, “While co-operation comprises various measures aiming at harmonizing economic policies and lessening discrimination, economic integration entails measures which suppress some forms of discrimination. But there are some forms of international cooperation, which may be regarded as pre-integration stages. For instance, trade consultations or sharing of experiences in planning economic development between two or more countries could be a first step towards some form of economic integration” (Ghuntus, 1982: 18).

Laffan, also, distinguishes between economic integration and economic cooperation from another point of view. He argues that in spite the fact that in both of them the nations are involved in collective action, but in the case of integration we can observe an intensive action, which includes the creation of institutions and adopts specific policies, whereas international cooperation depends to a great extent on nation state control. In other words “organizations characterized by inter governmental cooperation are not intended to impinge greatly on national sovereignty” (Laffan, 1992: 3). Organizations, which are formed to promote internal governmental cooperation, do not establish independent institutions with power over the member state (ibid).

Blassa defines economic integration in terms of process and as a state of affairs. "Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs it can be represented by the absence of various forms of discrimination between national economies" (Balassa, 1965:1). Whereas, Gerhrels and Johnston defined economic integration as "the presence of important economic links between a group of countries" (Hass, 1958: 11).

Hass determines specific characteristics to regard such economic integration as an aspect of community evolution (Hass, 1958: 12):

- 1- Agreement for completion and gradual removal of tariffs, quotas and exchange controls among the member states.
- 2- A member state should abandon its right to restore trade restrictions on a unilateral basis for the duration of the agreement regardless of the difficulties that may arise or that a member state may face.
- 3- The member states should adopt joint action to deal with the problems resulting from the removal of trade barriers and to ensure the best utilization of the available resources in the area.
- 4- Some degree of harmonization of national policies especially those that affect price structures and the distribution of resources among the member states (for instance social security and agriculture programmes) in addition fiscal and monetary policies.
- 5- A free movement of labour and capital in the area.

On the other hand, Wallace defines economic integration by distinguishing between the shallow integration that refers to the abolition of barriers to trade between national economies, and the deep integration that refers to the adopting of common policies and standards to abolish non-tariff obstacles to trade within a single market (Wallace, 1994:6). He thinks that in Europe the shifting from shallow to deep integration made the integrated institutions play a role in political issues, varying from environmental to social ones, company law, cross-border crime, the role of the public and private sectors and the supply and funding of public goods (ibid).

Myrdal defines economic integration by focusing on several economic aspects. He once wrote: "an economy is integrated when labour of a given kind commands the same

price, when there is one market for capital, with a single price for comparable risks, and when the price of the same kind of land has been equalized...the relation of these conditions would in human terms mean the achievement of that old ideal in western democratic thinking, equality of opportunity" (cited by Hass, 1958: 12).

Wallace, on the other hand, distinguishes between formal and informal integration in the respect that formal integration is defined as the establishment of "common institutions, through which to develop roles and polices to regulate, channel, redirect, encourage, or inhibit economic and social flows"; whereas, informal integration developed: "patterns of interaction that flow without further deliberate governmental decisions, following the dynamics of markets, technology, communications networks, and social exchange, or the influence of social, political or religious movements"(Wallace, 1994:5).

Formal integration is described as a "discontinuous process, proceeding treaty by treaty, regulation by regulation, decision by decision", whereas he describes informal integration (or disintegration) as a matter of "flows and exchanges of the gradual growth (or decay) of networks of integration. The relationship between these two processes is complex, as Western European governments have discovered" (Wallace, 1994: 5).

Other related concepts are negative and positive integration as indicated by Pinder, which were developed by Tinbergen in the study of economic integration. Negative integration refers to the removal of barriers that inhibit the free movement of goods, capital, and labour, whereas positive integration includes the adopting of common policies and laws by the participating countries. According to Pinder, negative integration is easier than positive integration. He argues that "it is relatively easy to define discrimination and to legislate for its removal in a treaty, whereas it is difficult to make provision for a common policy which can take many different forms" (cited by Laffan, 1992:5). Tinbergen's distinction between positive and negative integration was criticized because he described freedom as "negative", while the coercive power was regarded as "positive" integration (Jovanovic, 1998:5).

Panic, on the other hand, distinguishes between "open integration" and interdependence. He indicates that an economy is considered to be open if it presents few obstacles to international trade and factor movement. However, it does not necessarily follow that an

open economy is an integrated one in the international economic system. Only active participation in the international division of labour could be described as international integration, whereas, two or more economies could be described as interdependent when the economic development in these countries is effected by the economic situation and the policies that are adopted in the partner country (Jovanovic, 1998:7).

Hass holds a view about the overlapping between the political and economic factors of integration by arguing that "it may be posited that economic integration unaccompanied by the growth of central institutions and policies do not necessarily lead to political community since no pressure for the reformulation of expectations is exercised. A free trade area, therefore, can not be automatically equated with political integration nor can the interpenetration of national markets be so considered, if economic integration merely implies the removal of barriers to trade and fails to be accompanied by new centrally-made fiscal, labour, welfare and investment measures, the relation to political integration is not established" (Hass, 1958: 12-3).

Balassa, also, emphasizes the role of political goals behind establishing of European integration. He points out several political goals which were the driving force for the European Economic Community (Balassa, 1965:6). These goals were:

1. To avoid wars in the future between European countries, especially between Germany and France;
2. To create a third force in the world to counter American power and the Soviet Union; and
3. The reestablishment of Western Europe as a world power.

3.3 International Trade and Economic Integration:

The liberalization of trade among countries and the free movement of goods and products was the main factor for regional integration and play a crucial role in motivating countries to look for huge markets through the regional integration process. A variety of natural endowments and the advantage of specialization (the division of labour) were the original elements, which were used to justify the economic liberalization. Milnes thinks that men, like states, are not qualified to produce the same things. It should be noted that even if there is no such verification of natural endowments it would still be beneficial to specialize in particular activities because of

the “ economies made possible by the division of labour ” so everyone and every country should specialize in the activity in which it has a comparative advantage (Milnes1976: 12).

Ricardo and Smith emphasized the concept of increasing return to scale in arguing for international trade, which means that as the production increases the cost of units becomes less. Increasing returns to scale is another factor that is used by economists who support and justify the importance of removing trade impediments if the “domestic economy is inadequate to exhaust the scope for reducing costs by increasing production and an increasing number of industries (computer, aircraft production, heavy electrical engineering) have been moving into this position” (Milnes, 1976: 12).

All this is about the economics of production, but the market system is not determined only from the production side. It has another pillar which is economics of consumption where the taste and the desires of consumers play a major role in preferring a particular product to another. This is based on the principle that “the same goods have different values for different consumers at the same time or for the same consumers at different times” (Milnes, 1976: 12).

In spite of the great contributions of the comparative advantage theory in the interpretation and justification of international trade, and its role in motivating countries to develop their trade relations, the rapid growth in international trade and the tremendous expansion in international markets points to some weaknesses in the comparative advantage theory and its ability to answer several questions that are evoked after the great development of international trade. This situation opens the way for new theories to arise, which are able to cope with the updated changes in international trade relations.

The technology gaps theory was one of these theories, which was based on the idea of Hodgson and Herander that because technology is not equally accessible and available to all nations, ‘technology gaps’ emerge in which the most advanced technology is concentrated in relatively few countries. “Not surprisingly these countries tend to develop strong comparative advantage in high-technology goods. The comparative advantage in lower technology items may pass to countries further behind in the development process” (Hodgson et al, 1983:62).

This emphasis on the role of technology in international trade led to the evolving of new theories, such as the Product Life Cycle Theory, which was advanced by Raymond Vernon. This theory “examines the trade patterns that evolve from the time a new product is introduced by a particular country to the time when the technology required for its production is available on a worldwide basis” (Hodgson et al, 1983:62). According to Vernon, a newly-developed product should pass through several stages, each of which has an effect on trade patterns. These stages are: the new product stage, the maturing product stage and the standardized product stage (Hodgson et al, 1983:62).

3.4 The Stages of Regional Integration

The failure of several regional integration experiments in the past could be partly due to the absence of gradualism in carrying out this process and the haste in realizing the final stages of economic integration from the first day of establishing the regional integration.

Balassa thinks that in Western economic literature, the discussion of economic integration types usually concentrates on the different stages of regional economic integration, from its lowest to its highest types: The process of the removing of barriers to trade has been called ‘trade integration’, the liberalization of factor movements among the member states, ‘factor integration’, the adopting and harmonizing economic common policies among the participant states, ‘policy integration’, and the complete integration of these policies is called ‘total integration’ (Balassa, 1978).

Most economic integration theorists distinguish between five main stages of regional integration. These are made up of a free trade area (FTA), a customs union (CU), a common market (CM), and a monetary union (MU), economic union, and complete economic integration. Every stage is different from the others according to the level of integration that the member states aim to reach, and to what extent the participant countries are ready to surrender their economic policies to supranational institutions and regional organizations. However, some economists add extra stages to this classification, like (Jovanovic,1998), who classifies preferential tariff agreements as the first stage of economic integration, whereas Elaagra (1999) adds a ‘complete political union’ as a final stage of regional economic integration.

These stages do not necessarily reflect a consequent process that the participant states in the regional integration should follow step by step in order to reach the final stage of regional integration. As (Pelkmans, 2001:7) argues, the stages are “presented sequentially for analytical reasons to follow the sequence rigidly”, for example, the European Economic Community (EEC) did not start with an FTA as its first step to regional integration but with a customs union.

The table below shows the various stages of economic integration, and the policy action that participant countries should adopt at every stage, which begins with a free trade area and ends with the total unification of economic policies:

Table 3.1: Types of international economic integration

Policy action	Type				
	Free trade area	Customs union	Common market	Economic union	Total Economic union
Removal of tariffs and quotas	Yes	Yes	Yes	Yes	Yes
Common external tariff	No	Yes	Yes	Yes	Yes
Factor mobility	No	No	Yes	Yes	Yes
Harmonization of economic policies	No	No	No	Yes	Yes
Total Unification of economic policies	No	No	No	No	Yes

Source: (Jovanovic, 1998)

3.4.1 Free Trade Area:

A Free Trade Area (FTA) comes about when the member states agree to a free flow of their national goods and products among the member states borders, through abolishing the entire customs tariff and other customs restrictions, such as quantitative restrictions and removing all the impediments facing the free movement of these goods. However, unlike the customs union, in the FTA the member countries retain their national customs tariffs against the external world.

The world has seen a series of free trade areas, such as the North America Free Trade Association (NAFTA) and the European Free Trade Association (EFTA) which are regarded as good examples for free trade areas.

Swann argues that free trade areas may be *partial* when they covers only some economic sectors, such as the European Coal and Steel Community, which comprises only two industries and does not adopt a common external tariff towards goods imported from third countries. Similarly, EFTA can be taken as an example of a partial free trade area since it largely excludes agricultural trade from the treaty (Swann, 1996).

Shibata emphasizes the importance of the 'rules of origin' in his definition of the FTA, so he defines free trade area as "an international grouping of...countries, each of which agrees to exempt from the tariffs and quantitative restrictions which it generally imposes on imported products, that form part of those products which have originated or are produced in the territories of the other members of the group" (Elaagra et al, 1981).

Jovanovic (1998) argues that these rules of origin aim to prohibit the trade deflection in the FTA, which usually happens when the people of the member states try to import goods from third countries through the country which applies low customs tariffs and re-exports it to another country which applies high external tariffs in a free trade area. Nonetheless, production deflection probably happens if the imported goods are used as an input for goods which will be re-exported to a participant state which applies a low customs tariff if the difference in tariff equalizes the difference in production costs.

Indeed, Balassa, before Jovanovic, puts stress on production deflection as an outcome of variations in customs tariffs among the participant states in a free trade area. He thinks

that “the establishment of a free trade area may bring about an uneconomic structure of production...The ensuing reallocation of resources will have detrimental effects on world efficiency since the pattern of productive activity will not follow the lines of comparative advantage but rather the difference in duties” (Balassa, 1965: 71).

In addition, Balassa thinks that the deflection in production may lead to a deflection in investment. He argues that “The establishment of so-called tariff factories is a case in point; other things being equal, foreign investors will move funds to countries with lower tariffs on raw materials and semi-manufactured products. Similarly, factories will be set up to assemble parts produced in third countries with low labour costs if tariff advantages make this operation possible” (Balassa, 1965: 71).

The free movement of goods is not an easy issue, and the process of dismantling customs barriers and internal protection does not require the abolishing of a customs tariffs and quantitative restrictions only, but also the removing of non-tariff barriers (NTBs).

As Swann points out, the internal “trade between the partners must not be prevented or distorted by state subsidies, anti-competitive business practices, domestic fiscal arrangements, discriminatory public purchasing, the imposition by the state or other bodies of standards which effectively exclude imports, border controls and administrative process, and so forth. The removal of such barriers poses major problems” (Swann, 1996:4)

3.4.2 Customs Union:

A customs union comes about when the member states agree to abolish all the customs barriers among themselves in order to achieve a free movement of goods and commodities among them without any tariff or non-tariff barriers. In addition, the adopting of a common tariff identifies the products and goods, which are imported from the external world.

Lipsey defined the theory of customs unions as “a branch of tariff theory, which deals with the effects of geographically discriminatory changes in trade barriers”. Whereas

this definition may be true in a static situation, a customs union effect in dynamic analysis exceeds that which affects economic development (Jovanovic, 1998).

It should be noted that the customs union has three essential features (Robson, 1998):

1. The elimination of tariff and quotas on imports from the member states;
2. The adoption of a common external tariff on imports from third countries;
3. The distribution of customs revenue between the participant countries according to an agreed formula.

According to Hatem (1981), tariff theory has two types of discrimination:

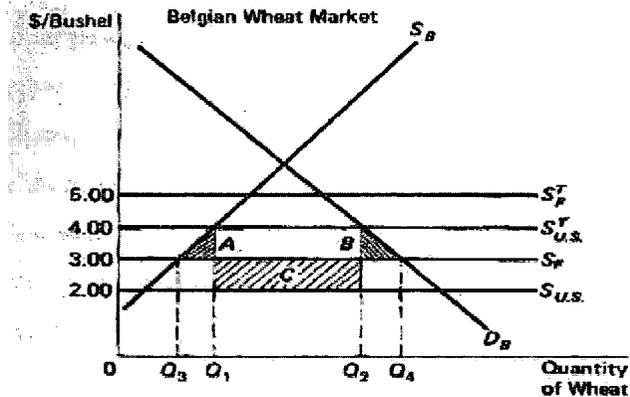
- (a) A commodity discrimination, where different levels of tariff are applied to different goods, and
- (b) A country discrimination where different tariffs are imposed on the same goods, depending on the country from which the commodities are imported. Customs union theory is relevant to the latter type of discrimination.

3.4.2.1 Trade Creation and Trade Diversion:

Viner's writings about the customs union effects on international trade and on the level of world welfare are regarded as a pioneering distinction between trade creation and trade diversion. According to Viner, trade creation comes about when the establishment of the customs union leads to the replacement of "high cost production in one partner by imports from a lower-cost producer in another sector of the union (Elaagra, 1981).

On the other hand, trade diversion occurs when imports from a customs union partner, replaces lower-cost imports from the external world, which are excluded by imposing a common customs tariff against its goods (Ibid).

Figure 3.1: Static Effects of CU Formation



Source: Hodgson et al (1983)

Hodgson and Herander (1983) explain these effects through the following example:

Let us suppose there is a trade arrangement between three countries, for example France, Belgium and the United States. Belgium is a small country so according to the international market price, it could import wheat from the United States for 2\$ per bushel and 3 \$ per bushel from France. Also let us suppose that Belgium imposes a 2\$ a customs tariff against the imported goods. This situation is illustrated in figure 1, where the demand (D_B) and the supply (S_B) for wheat in Belgium are shown with the French supply (S_F) and the United States supply ($S_{U.S.}$) for wheat. According to this figure, and under the conditions of free market competition, Belgium, which produces Q_1 , will import the rest of its demand for wheat Q_2 from the USA for 4\$ per bushel - the world's low cost for the producing of wheat - rather than from France, which will cost 5 \$.

Suppose now that France and Belgium decide to form a customs union and according to this agreement they abolish the customs tariff between them and let it remain against the rest of the world (2\$ as a customs tariff against the imported goods). In this situation Belgium will shift its wheat imports from the United States, which cost 4 \$, to import it from France for 3 \$. In this case Belgium the import price will come down from 4 \$ to 3 \$ per bushel and the consumption in

Belgium will increase to Q4, whereas, the Belgium farmers' production of wheat will decrease from Q1 to Q3.

From this discussion, two types of effects, caused by formation of the customs union, can be distinguished: the trade creation effect which reflects the improvement in the economic situation of the importing state as a result of importing from the low cost customs union partner and the consequent increase in the quantity of imports associated with the CU establishment, which is depicted graphically by triangles A and B, which are known as the production and consumption effects. The production effect is a welfare gain that occurs when Belgium decides to import wheat from a lower-cost country (France) by a Q1Q3 amount rather than produce it domestically at high cost. Similarly, the consumption effect has a positive result in the Belgium economy because the consumers can increase their consumption from Q2 to Q4 as a result of a decrease in price to 4 \$, before the customs union set it at 3 \$ later.

On the other hand, the trade diversion effect, which is regarded as negative, can be seen when Belgium shifted its importation from the united States, at a lower cost, where the wheat was priced at 2 \$ per bushel, to France at a higher cost, as a result of imposing a customs tariff of 2\$ on American wheat. It should be noted that American wheat cost as much as 4 \$ per bushel after the customs tariff - 2 \$ going back to the Belgium government through the customs authority and the actual cost remaining at 2 \$, - whereas the cost of French wheat remained at the higher price of 3 \$. The loss to the Belgium economy is represented by area C. This represents the additional cost of the import quantity, Q2-Q1, to Belgium after the setting up of the customs union in figure 3.1 (Hodgson et al, 1983).

According to Balassa, trade creation, since it entails a shift from high cost to low cost sources of supply within the customs union, represents a movement towards a free trade position. Whereas, a shift of imports from lower cost sources (before the formation of the customs union) to higher cost producers with CU partner, represents trade diversion. This acts in the opposite direction to trade creation. In other words, the beneficial effects of the customs union beneficial will predominate, as Viner argues, if trade creation outweighs trade diversion (Balassa, 1965).

The final determination as to whether the customs union will be predominantly trade-creating rather than trade diversion actually depends on many factors and circumstances surrounding the establishment of the customs union. Robson (1998:27) formulates a general statement about this issue, which might be summarized as follows:

- The larger the economic area of the customs union, and the more countries members in it, the more probability of trade creation rather than trade diversion.
- The relative impact can be related to the level of the average of tariff before and after the formation of the customs union. If the post union customs tariff is lower, the union is more likely to be trade creating, but if it is higher, the union is more likely to be trade diversion.
- If the economies of the member states are more competitive, then trade creation is more likely, according to whether the range of commodities produced by higher cost industries in the different parts of the customs union is similar. Likewise, the smaller the overlap, the smaller will be the possibilities of reallocation, which is the source of trade creation.
- For a specified overlap, in which trade creation is more likely to predominate, the greater are the differences in unit costs of protected industries of the same kinds in different parts of the customs union, since these will determine the allocation gains to be derived from free trade among the members (Robson, 1998:27).

3.4.2.2 Dynamic Effects of the CU:

Customs union effects in prices, quantities and sources of imports are known, in the short run, as static effects. Whereas, there are other effects in economic structure for the customs union of a member state and, in the long run, these are regarded as economically more important than the short-run effects, which are known as dynamic effects (Hodgson et al, 1983).

Terms of trade improvement, which provide the member state with a power of bargaining in its trade relations with the external world, are one of these important beneficial gains that the member states of the CU may attain. This is defined as “the ratio of the quantity of imports that may be obtained in trade for a certain quantity of

exports or, alternatively, it is the relative price of imports to exports” (Jovanovic, 1998: 86).

Balassa distinguishes between short-run and long-run factors of change in the terms of trade. Short-run factors that become operative consist of trade diversion, exchange rate adjustments, and bargaining power, whereas, changes in productivity and real income are regarded as long-run impacts (Balassa, 1965).

The shift in the union member’s reciprocal demand for foreign goods, will improve the union’s terms of trade and, other things being equal, a greater shift in reciprocal demand will cause a larger improvement in the terms of trade. Moreover, changes in the terms of trade will also rely on the elasticity of reciprocal demand (ibid).

According to Robson (1998) customs union terms of trade with third countries can be affected not only by the union’s external common tariff, but also by the tariffs of other countries. Generally, the higher the tariffs of other states on the export commodities of the union, the less favourable will be the terms of trade of the union with the rest of the world. In addition, it seems likely that the larger the customs union in economies or in number of participants, the greater its bargaining power is likely to be.

Economies of scale have another important impact on the customs union establishment, in the long run, wherein it is proved that there is a strong relationship between the size of the market and production (Alemam, 1989).

According to Jovanovic (1998), return to scale refers to “the relationship between input requirements and output response with its impacts to costs”. This means that the establishment of a customs union may widen the size of the market available to firms working within the union. Therefore, these companies will be able to raise their production level and in so doing realize economies of scale, which are defined as “a reduction in the per-unit costs of production as output increases. As a result, the productive efficiency of the firm will increase”. (Hodgson et al, 1983:285).

According to Elagraa, the several possible sources of economic achievement for regional integration at the customs union and free trade area level can be listed as follow (Elagraa, 1999):

- (a) Enhanced efficiency in production made possible by increased specialization in accordance with the law of comparative advantage, due to the liberalized market of the participating nations;
- (b) Increased, production levels due to better exploitation of economies of scale made possible by the increased size of the market;
- (c) An improved international bargaining position, made possible by the larger size, leading to better terms of trade (cheaper imports from the outside world and higher prices for exports to them);
- (d) Enforced changes in efficiency brought about by intensified competition between firms; and
- (e) Changes affecting both the amount and quality of the factors of production due to technological advances, themselves encouraged by (d).

If the level of regional integration is to go beyond the free trade area and customs union levels, then further sources of economic gain also become possible.

- (f) Factor mobility across the borders of the member nations will materialize only if there is a net economic incentive for them, thus leading to higher national incomes;
- (g) The coordination of monetary and fiscal policies may result "in cost reductions since the pooling of efforts may enable the achievement of economies of scale; and
- (h) The unification of efforts to achieve better employment levels, lower inflation rates, balanced trade, higher rates of economic growth and better income distribution may make it cheaper to attain these targets.

3.4.2.3 Complementarity and Competitiveness:

There is an intense argument among economic integration theorists as to whether the customs union will be more beneficial in its effects if it is formed between states producing competitive goods or between those introducing complementary goods.

Jacob Viner stated in his book - *The customs Union Issue* -: "In the literature on customs unions, it is almost invariably taken for granted that rivalry is a disadvantage and complementarity is an advantage in the formation of customs union" (Balassa, 1965:27-8).

According to Lundgren the free trade supporters used to come down in favour of customs union of complementary states. Whereas, Viner adopts the opposite idea, that the more competitive the economies of the participant countries the greater the beneficial impacts of a customs union, and this is now embodied in the accepted theory of customs unions (Cited by Hodges, 1972:161).

Balassa argues that support for union between complementary economies was adopted from both free traders and protectionists but for opposite justifications. Protectionists looked upon complementarity between the union members as an assurance that the establishment of the union would create the possibility for autarkic economic policies, whereas free traders regarded complementary union participants as beneficial, on the basis that it gave promises of larger savings in costs, since cost differences between complementary economies were greater than between rival countries (Balassa, 1965:30).

But Viner, in his book *The Customs Union Issue*, does not agree with these ideas and he reached different conclusions. He thinks that the less the degree of complementarity- or the greater the degree of competition- of the participant countries with respect to protected industries prior to customs union, the greater benefit from the customs union (ibid).

3.4.3 Common Market:

A common market comes about when the member states of a union decide to go one step further in their relations, not only through the introduction of the free movement of

products and services among them and by adopting common external tariffs against the products of the outside world, like the situation identified in the customs union, but also by allowing a free movement of factors of production, labour, capital and enterprises without any impediments.

Pelkmans (2001) and El-Agraa (1999) include technology within the factors that should move freely between the participating countries.

The non-discrimination of factors originating in the partner countries is a condition for the factor markets' integration. In this case, "factors respond to signals which include demand, higher productivity and returns within a common market" (Jovanovic, 1998).

A free movement of labour between the member states usually coincides with a number of measures that are taken by countries in order to inhibit the free mobility of labour among the participant countries. These barriers are (Hodgson et al, 1983):

1. Quota restrictions that are introduced by several countries in order to control the number of foreign workers that may be employed in the country, so as to give priority to its national workers.
2. The limitations on information about the availability of employment in foreign countries.
3. For skilled labour, certificates of competency (e.g. diplomas and licences are usually unacceptable outside the country of certification.

Balassa argues that, besides irrationality and lack of necessary information on jobs and working conditions in member countries, unequal policies of income redistribution adopted by union members can also take a part in the divergence between private incentives and social needs. Balassa suggests a group of measures that will help to redistribute the effects of free movement of production factors. He maintains that:

"Redistributional measures can take the form of social benefits (free medical services, old-age pensions, unemployment compensation, etc.) financed from general taxes, for example. Workers may move to a country where the marginal product of labour is lower than in the home country, if in the country of immigration the state provides various kinds of social benefits the sum of which is sufficiently larger than the wage differential that is assumed to reflect differences in marginal products. In this case, the movement of labour will reduce rather than increase world efficiency" (Balassa, 1965: 87).

According to economic integration theory, it is expected that the free movement of factors within the union will improve the allocation of resources over that achieved in either a free trade area or a customs union. The neo-classical trade theory of Heckscher-Ohlin concluded that a nation with a rich supply of labour may either export labour-intensive commodities or import capital and export labour, on the assumption that technology is the same in all countries. In either case the state is equally well off (Jovanovic, 1998).

Capital factor mobility means that “all enterprises throughout an integrated area should have access to credit on equal terms and that both loan capital and equity capital should be able to move to places where higher returns can be obtained” (Balassa, 1965: 92).

Capital free movement both physical and financial is also facing some obstacles which are imposed by national legislation, in addition to information costs and institutional impediments which play a big role in this field. As an instance for legislative impediments, national governments sometimes limit capital outflows by imposing a tax on the returns earned on foreign investments or by putting outright quantitative restrictions on capital movements. Institutional obstacles would entail an absence of financial facilities through which to conduct an international transfer of funds. For example, if commercial banks of different states are unwilling or unequipped to accept foreign assets or liabilities or to handle international payments, then the international flow of capital will be severely impaired (Hodgson et al, 1983).

According to Jovanovic, capital moves among states in the form of portfolios and direct investment. Portfolio investment is usually just a short-term movement of claim, which is speculative in nature. The main aims entail an increase in the value of assets and relative safety. This form of capital movement may be motivated by differences in interest rates. This kind of investment may be seen by the recipient state as hot, unstable and “bad” (Jovanovic, 1998: 132-3).

On the other hand, foreign direct investment usually comes as a result of decisions by transnational corporations (TNCs). So the foreign direct investment may be a relatively good proxy for the investment activities of TNCs (ibid: 133).

Balassa argues that in the absence of exchange restrictions, the mobility of capital will be determined by differences in earnings' possibilities and by the estimated degree of risk and uncertainty. The latter is stipulated by concerns of the future imposition of exchange restrictions, political and monetary instability, amendments in taxation and in regulations on dividends, price and wage fixing, and nationalization (Balassa, 1965: 93).

3.4.4 The Monetary Union:

Many economic integration theorists address this stage as a part of economic union. Dennis Swann argues that the European Community prefers to deal with this concept as an economic and monetary union (EMU), since it "envisages a situation where a common market (which is the 'economic' aspect) takes a further step towards monetary union (the 'monetary' aspect)" (Swann, 1996:5).

According to the sensitivity of this stage and what the national currency represents in the feelings of the people and the minds of the officials in the nation state, this stage was regarded as one of the most difficult impediments in the economic integration process and several regional integration experiments have stopped short of it.

Jacques Delors, the president of the European commission proposed a three-stage transition plan to achieve an EMU:

In the first stage, the all participant countries were to join the European Monetary System exchange-rate mechanism. In the second, the exchange rate margins were to be narrowed and certain macroeconomic decision-making policies were to be under the control of the European Union institutions. In the last stage, the Delors plan entails the replacement of national currencies by a common single European currency, and all the monetary policy making should be managed by the European central bank, similar to the United States Federal Reserve System (Krugman et al, 2000).

Monetary union is very advanced step in regional integration, where the member states agree to adopt a single currency, and establish a central bank in order to manage and draw up a common monetary policy for the union. Indeed, the monetary union is a very important issue, especially in its association with state sovereignty, where the state will

lose its control in issuing its national currency and surrender its right to manage and control its monetary policies to regional institutions.

Jovanovic points out that as monetary policy is very sensitive issue, the treaties establishing the European Union showed special concern towards these issues .In fact the Maastricht Treaty is almost entirely about the economic and monetary union (EMU). He argues that “integration of monetary policies in the EU is necessary not only for the stability of rates of exchange, price, balance of payments and investment decisions, but also for the protection of an already-achieved level of integration, as well as for the motivation for further integration in the future”(Jovanovic, 1998 :171).

Laabas & Limam, define monetary or currency union as a “region for which it is optimal to have its own Currency and its own monetary policy (Laabas et al, 2002: 3)”. From this definition, two pillars for the monetary union may be derived: First, adopting a single currency amongst the union members. Second, having a common monetary policy for the all community, drawn up by the union Central Bank

In contrast, Hodgson and Herander define the monetary union as an “economic region where a single currency is employed or, equivalently, two or more currencies are locked together in value so as to be in effect a single currency” (Hodgson et al, 1983: 295). Having a rigid and irrevocably fixed exchange rate which is freely convertible is a necessary condition for the two currencies to function as one (ibid).

Therefore, monetary union compromises “monetary integration, a single currency and a common central bank controlling and supervising the pool of foreign exchange reserves and managing monetary policy for the union” (ibid, p: 3).

On the other hand, according to Hitiris, it is worthwhile pointing out that very often before engaging in monetary union states raise the level of monetary corporation through monetary integration, which involves the following steps (Hitiris, 1998: 140):

1. The restriction or elimination of fluctuations in exchange rates among the member states.
2. The irrevocable fixing of parity rates.

3. The total and irreversible convertibility of currencies.
4. The complete free movement of capital among the participant states.

Total success in completing the foregoing steps leads to integration of the finance and monetary sectors of the participating states and makes their national monies perfect substitutes; then the formation of a common central bank to issue a common single currency and exercise common monetary policy is only a formality (Hitiris, 1998: 140).

Monetary union is a necessary step to realize the best results of economic integration and to prevent any contrary decisions in the integrated area where its effects touch all participant countries. Therefore, monetary union is very desirable and has several advantages for the integrated area.

(Laabas et al, 2002: 3) point out several advantages for monetary union since it allows exchange rates to be fixed and accordingly reduces the uncertainty of exchange rates that impede trade and investment. Moreover, it is desirable to the extent that it decreases transaction costs associated with multiple exchange rates. These costs are relevant to monitor exchange rates fluctuations, the cost of information to predict exchange rates movements that of currency conversion, and the cost associated with the need to keep and manage reserves for intra-regional trade.

What is more, monetary union allows some economies of scale to come about in terms of freeing idle reserves, improving the role of money as a unit of account and as a means of payment. On top of that, monetary union may help decrease the ability of speculators to affect prices and disrupt the conduct of monetary policy and economize on reserves in case of offsetting payment imbalances. Last and not least, the advantage of monetary union is that it may reinforce the discipline and credibility of monetary policy, especially in inflation-prone countries. The credibility of monetary policy can be improved by attaching the latter to a low-inflation anchor currency (ibid).

3.4.5 Economic Union

Economic union comes about when the participant countries decide to go one further step in their process of integration by broadening their harmonizing policies to cover

other economic sectors, such as fiscal, industrial, regional and social policies, in addition to monetary, labour and capital integration.

To a great extent this stage overlaps other ongoing stages, especially the common market and monetary union stage. Jovanovic (1998: 170) emphasizes this point of view when he argues that “none of the types of international economic integration exists in its pure theoretical form”. For example, a customs union is not interested in tariff and quotas issues, but in industrial policy and specialization. It is also concerned with non-tariff barriers and foreign direct investment from member countries and outsiders. Moreover, in a common market, labour-free movement not only requires the removal of labour discrimination from member countries, but also some degree of social policy harmonization, such as social security, unemployment benefits, pension funds and vocational training (Jovanovic, 1998).

Several economic theorists stress the importance of the economic union and its role in harmonizing different aspects of economic integration and they think that adopting separate stages in economic integration may cause different side effects, which may harm the whole economic integration process.

Elaagra, emphasizes the role of economic union and its role in overcoming the sectoral integration effects as follows:

Firstly, the introduction of free factor mobility may enhance efficiency through a more efficient allocation of resources but it may also lead to depressed areas and therefore create, or aggravate, regional problems and imbalances. Secondly, fiscal harmonization may also improve efficiency by eliminating non-tariff trade distortions and by subjecting factors of production to equal treatment hence encouraging their efficient mobility. Thirdly, the coordination of monetary and fiscal policies implied by monetary integration eases unnecessarily severe imbalances, hence promoting the right atmosphere for stability in the economies of member nations (Elagraa, 1983:141).

According to Jovanovic (1998), economic union creation can be defended by using the same arguments, which are used in favour of the creation, implementation and protection of a single economic policy in a state, which has different regions.

3.5 Economic Integration and Developing Countries:

Post World War II, third world countries have seen a series of economic integration attempts, such as the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), and the Andean Common Market (ACM), the East Africa Community (EAC), the Central African Customs and Economic Union (UDEAC), the West African Economic Community (CEAO), (Balassa in: Machlup, 1978:27), and the Arab Common Market. These attempts were motivated by a successful European Economic Community experiment and their real desire to break the underdevelopment circle, which most of the third world countries are suffering from.

The theory of economic integration, which came to reflect the conditions of developed countries and evolved in the mind of industrial societies, renders this theory of limited relevance to developing or under-developing countries. This makes it necessary to modify the basic theory of economic integration and develop it by concentrating on static terms and to analyse dynamic elements that have derived their analysis from the theory of economic development (Ghantus, 1982).

However, El-Agraa (1983:145) believes that there are basically “no theoretical differences” between economic integration in the developed countries and the developing countries, but that there is a major difference in “terms of the type of economic integration that is politically feasible: the need for an equitable distribution of the gains from industrialization and the location of industries is an important issue. This suggests that any type of economic integration being contemplated must incorporate as essential element a common fiscal authority and some coordination of economic policies” (El -Agraa, 1983:145).

However, according to El-Emam (1989:256) there is a virtual consensus among the observers, that third world countries’ experiments in economic integration were unsuccessful, regardless of the aims and means used by these countries to achieve this integration. What is more, some of these regions represented successful customs unions and common markets under colonialism, and benefited from some form of common services like transport or a common single currency, or even the birth of a single state. But after these countries attained independence, certain aspects of divergence and

disparities prevailed among them and destroyed all integration efforts, as can be seen in the experiments in East Africa countries. (ibid)

According to Hitiris (1998:5), developing countries are usually similar, both potentially and actually, so economic integration between them cannot aim at a static welfare gain.

Developing countries are establishing regional economic associations in an attempt to foster growth and to achieve fundamental changes in the structure of their production and trade. After doing all this, they can try to fashion a regional trade structure, which will help to orient their economies towards regional specialization. Hitiris suggests several means that such countries should follow to achieve the foregoing aims (Hitiris, 1998:5):

- Pooling scarce resources essential for economic growth, such as capital, skilled labour, foreign exchange and entrepreneurship
- Avoiding unnecessary and uneconomic duplication in capital investment, research expenditure and the application of modern technology
- Enlarging the market to gain from economies of scale and the potential for developing a competitive structure.

Balassa in: (Machlup, (1978:27) tries to examine the factors behind the unsuccessful integration experiments in developing countries. He identifies five factors which play a major role in impeding economic integration among developing countries:

First, item-by-item negotiations on tariff reductions are firmly opposed by the power of special interest groups.

Second, variation in the level of industrial development impedes trade liberalization efforts.

Third, in view of the distortions, in relative prices due to protection, it is not easy to determine the advantages to be gained from the integration process and there is a tendency to consider changes in the trade balance as an indicator of losses or gains.

Finally, maintaining the sovereignty of the nation state is a major factor in impeding economic integration among developing countries, especially as it is known that most of these countries are relatively new independent states and are very sensitive about this issue.

El-Emam suggests several issues that economic integration theorists for the developing countries should avoid in order to overcome the obstacles facing economic integration,, such as justice in benefits distribution between the integrated countries, in order to avoid any negative effects of integration; connecting the integration stages with the development stages according to the union situation; taking a long-term view of the dynamic effects of economic integration; connecting the commercial integration steps with the production integration requirements; and unifying the union attitudes towards the external world, especially in issues related to capital resources, technology and the ratio of mutual trade (El-Emam, 1989:259).

3.6 Economic Integration and WTO Rules:

There is an argument among the members of the World Trade Organization (WTO) as to whether the establishment of regional economic integration, especially a customs union and free trade area, coincide with the rules and principles of the WTO, especially the most favoured nation principle and the non-discriminatory treatment of imports from and exports to all other WTO participants.

Saleem (2001:1), the WTO advisor, stated that according to WTO rules it is allowable for the members to form free-trade area agreements or to establish a customs union, subject to certain conditions and criteria.

El-Agraa thinks the justifications behind this are that, although customs unions and free trade areas and so on are discriminatory associations, they may not follow policies which increase the level of their discrimination beyond that which existed prior to their establishment, and that tariffs and other trade restrictions (with some exceptions) substantially abolish all trade amongst the participants (El-Agraa, 1999).

Article 24 of GATT 1994, which is relevant to the rules of customs unions, stipulates that the tariffs and other regulations of commerce should not on the whole be higher than the situation before the establishing of the customs union. It states the following (Saleem, 2001:1): “ With respect to a customs union, or an interim agreement leading to the formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade

with members not parties to such a union or agreement shall not, on the whole, be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such an interim agreement, as the case may be.”

According to El-Agraa, there is a more serious an argument and he believes that article 24 of the WTO is in direct contradiction to the spirit and principles of the WTO itself (El-Agraa, 1999). However, (Wolf in El-Agraa, 1999) argues that “if nations decide to treat one another as if they are part of a single economy, nothing can be done to prevent them, and that regional integration schemes, particularly like the EU at the time of formation in 1957, have a strong impulse toward liberalization; in the case of the EU at the mentioned time, the setting of the CETs (Common External Tariffs) happened to coincide with GATT’s Kennedy round of tariff reduction”.

3.7 Economic Integration and Sovereignty:

Sovereignty is regarded as the main obstacle in the way of economic integration, and it was a major factor behind the failure of several integration attempts, especially between the third world countries, most of which are regarded as relatively new independent states and they are very sensitive towards the sovereignty issue.

According to international law, the notion of sovereignty implies that a “recognized state has jurisdiction over a particular people and territory and that within their jurisdiction, state authorities have control over the legitimate use of coercive power” (Laffan, 1992:3). When states are engaged in the integration process, they surrender some part of their individual sovereignty in favour of its joint exercise with other states (*ibid*).

Jovanovic thinks that international economic integration is popularly criticized on the basis that it reduces a state’s national sovereignty (undisputed political power). When a group of sovereign states sign a treaty, they agree to do or not to do specified things. So it is not a valid criticism of any international agreement to say that it entails a loss of national sovereignty. All treaties lead to the same way. The real question is: Do the

countries' concessions constitute a mutually beneficial deal? Is the surrender of sovereignty justified by results?" (Jovanovic, 1998:12)

According to Bela Balassa the issue of sovereignty becomes more sensitive at the economic union stage, which involves, in addition to trade integration, the coordination of economic policy-making. He adds that the "co-ordination of the economic policies in turn requires political decisions that would necessitate establishing a common decision-making apparatus" (Cited by Machlup, 1976:29).

3.8 Conclusion:

After reviewing all the economic integration stages, as well as the theories and ideas that were introduced about each stage, the researcher will try to benefit from this discussion in the following chapters, especially with regard to the free trade area and the customs union stages, which are applied in the GCC regional integration process in order to discover where the GCC economic integration experiment stands in relation to these theories.

The free trade area and the customs union stage ideas will be utilized intensively when analyzing the results of the quantitative and qualitative field studies which were conducted with Omani businessmen and a focus-group interview with Omani senior officials.

The common market stage will be used to some extent, because the GCC economic integration process adopts some aspects of this stage and takes some related decisions, such as the free movement of the people of this region using identity cards, or the efforts that are exerted to co-ordinate their policies in different fields, such as education, health and transport.

It should be stated that the monetary union stage will not be used extensively in this research because the GCC countries have not yet gone through this stage, despite the GCC countries' decision to complete it by 2010. Furthermore, the economic union stage

will not be applied in this thesis, so the GCC countries will be far from finalizing this stage in the near future.

It is also important to note that there are certain factors which hinders or foster integration in the region. While being same race, having same culture and language fosters the aspirations towards integration, there are rather strong external factors which prevents such aspirations to be realised. For instance, the unstoppable globalization and the desire of the GCC countries to be a member of World Trade Organization, and the demands of such international organizations for adopting more of the open market policies and removing all tariff and non-tariff barriers played a role in increasing the concerns of these countries that they may be subject to economic invasion from external goods unless they create a strong economic integration region among themselves. In addition to the fear of these countries about their national sovereignty, especially after the United States of America foreign policy became hesitant to protect its allies in the Gulf, especially after the fall of Shah in Iran and the disability of the United States of America to stop the Soviet Union invasion of Afghanistan. While such external factors also have fostered the regional integration, the changing US policies have forced each country to negotiate their national interest with the outside world and the USA on bilateral agreements. Thus, it seems that in international economic matters, each country in the region prefer to engage with the outside world as a sovereign nation state and look for the interest of their own nation. All these domestic and external political and economic factors play a role in motivating or discouraging the GCC countries to adopt further economic integration, and these issues will be discussed in detail in the next chapter.

CHAPTER FOUR

The Establishment of the GCC: Factors, Objectives and Organizational Structure

4.1 Introduction:

This chapter examines the Gulf Cooperation Council experiment in integration, and endeavours to investigate the regional and international circumstances which have prevailed during the period that has witnessed the birth of this new entity. In addition, it will set out the objectives and the organizational structure of the GCC.

This chapter is divided into five sections: the first discusses the early historical efforts exerted by the peoples and governments of this region to reach cooperation and integration amongst themselves. This started with the British declaration in 1969 of its desire to withdraw from the Arabian Gulf and grant the people of this region their independence up to the announcement of the establishing of the Gulf Cooperation Council in 1981 amongst the states of this region.

The second section discusses the political and economic factors, which motivated the Arabian Gulf States to establish this entity. The inclusion of these political and economic factors is a very necessary step in order to realize this regional integration process and it will help to draw a clear image about its future.

In fact, some observers argue that the establishment of the Gulf Cooperation Council came as a reaction by the Arabian Gulf States to some political and security challenges, which threatened these countries during the 1980s and they claim that this regional entity will disappear as soon as these challenges vanish.

The third section focuses on the objectives of GCC integration, which can be discussed not only through the GCC charter, but through the issues that the GCC countries face and the regional and domestic challenges that they need to overcome.

The fourth section aims to evaluate the institutional structure of the GCC in order to identify the decision-making mechanism within the Gulf Cooperation Council and the functions of these organizations according to the GCC charter, as well as the nature of the functions that these institutions are entrusted with. The last section is the conclusion, which will sum up this chapter's results and main findings.

4.2 Historical Background:

The birth of Gulf Cooperation Council did not happen in a vacuum. Although the official declaration of the establishment of the Gulf Cooperation Council was in 1981, the real attempts to introduce such an integration by the people of this region started earlier. These efforts came as soon as the British announcement about their policy to withdraw entirely from the Gulf Region in 1969.

These unitary efforts started with attempts exerted in 1969 to form a federal state consisting of nine sheikhdoms in this region, including Qatar, Bahrain, Abu-Dhabi, Dubai, Sharjah, Ajman, Amm-Al-quin, Al-fujairah and Ras-Al-khaima. But this endeavor did not succeed because of both Qatar and Bahrain's decision to be independent states, and they became members of the United Nations in 1970.

However, efforts at cooperation and integration continued amongst the Gulf States. On the 2nd of December 1970, the last seven Emirates decided to form a federal union consisting of Abu Dhabi, Dubai, Sharjah, Ajman, Amm-Al-quin, Al-fujairah and Ras-Al-khaima. They chose Abu-Dhabi as the capital of the new federal state, and the ruler of Abu-Dhabi Sheikh Zayed Bin Sultan Al-Nhyan was chosen as the first president of the United Arab Emirates.

In 1976, following an initiative by Sultan Qaboos bin Saeed Sultan of Oman, the foreign ministers of Iraq, Iran, Saudi Arabia, Qatar, Bahrain, Kuwait, the United Arab Emirates and the Sultanate of Oman met in Muscat to discuss the Omani suggestion to coordinate regional security and defence policy among the Gulf States. However, the participants failed to reach an agreement on a common position and the meeting came to an end without any conclusion (Christie, 1987).

The next step in the efforts at Gulf unity came from Sheikh Jaber Al-Sabah, the crown prince and Prime Minister of Kuwait, in 1976 when he toured some Gulf States to discuss joint action to “preserve the region’s security and stability in the face of political, economic and security challenges threatening this strategic area” (Christie, 1987:9). He proposed the establishment of a Gulf union as a vehicle for this joint action, with the objective of “realizing cooperation in all economic, political, educational and informational fields” (Ibid).

But the most important development took place on 4th February 1981 in the meeting which was held in Riyadh, when the foreign ministers of the United Arab Emirates, Bahrain, Saudi Arabia, Qatar, the Sultanate of Oman and Kuwait, agreed on the establishment of a Gulf Cooperation Council, aimed at fostering and furthering cooperation and coordination among the member states in all walks of life (Qatar Ministry of Information, 1983). As a consequence of that meeting, the heads of the six Arabian Gulf States met later in Abu Dhabi, the capital of the United Arab Emirates, in May 1981, and verified the establishment of the Gulf Cooperation Council treaty and its charter, including the basic policies and objectives of the GCC.

However, it would be incorrect to consider the signing of this agreement as the starting point for Gulf cooperation. In fact, cooperation amongst the Arabian Gulf Countries in different forms started earlier; the formation of the GCC was more than a culmination of continuing efforts, bilateral actions and joint arrangements by the Arabian Gulf Countries. It was the formal recognition that the cooperation has been in existence among these countries for a long time. What a GCC agreement achieved was the creation of a new framework for further cooperation. In fact there is no a single name

for these series of joint agreements, projects, organizations and efforts that were pursued among the Arabian Gulf Countries preceding the establishment of the GCC (Ibid):

For example, in the economic field “There were The Gulf International Bank (December 1975), the Arab Shipping Company (January 1976), the Gulf Industrial Consultancies Organisation (February 1976), the Gulf Aluminium Rolling Mills Company (February 1981) and the Gulf Petrochemical Industries Company” (March 1981).

In the field of air transport, Gulf Air was set up through equal shareholdings owned by United Arab Emirates, Bahrain, the Sultanate of Oman and the State of Qatar. This airline has now earned an international reputation as it brings together the Gulf region and provides links with major international destinations.

There is also the construction of the 25-kilometer Bahrain – Saudi Arabian Causeway, probably the longest causeway in the Middle East. In addition, the Gulf Postal Organisation and an advanced telecommunications network serve to provide inter-Gulf communications and keep the region in contact with the rest of the world.

Since 1976, meetings between Arabian Gulf Ministers of Information have resulted in the creation of organisations such as the Gulf Co-production Organisation, the Gulf News Agency, Gulf Vision, the Petroleum Information Co-ordination and Planning Committee, the Gulf Centre for Co-ordination of Broadcasting and Television Training, the Information Documentation Centre and the International Information Relations Committee...etc.

4.3 The Political and Economic Factors behind Establishing the GCC:

The Arabian Gulf countries have much in common and share many joint features of life that enable them to doggedly pursue their integration march and continue their steady efforts at unity, in spite of the obstacles encountered by this integration endeavour.

The GCC countries comprise a consolidated stretch of land covering the entire Arabian Peninsula, except Yemen in the south. They share common borders, but are not separated by any natural barriers. These countries have a joint history, the same heritage, common values, one religion (Islam) and speak the same language (Arabic).

The GCC charter in its preface strongly stresses the significance of these factors, which play a major role in the efforts at integration and cooperation among the people of these countries. The charter states that “Being fully aware of the ties of special relations, common characteristics and similar systems founded on the creed of Islam which bind them; and believing in the common destiny and the unity of aim which link their peoples; ...In an endeavour to complement efforts already begun in all essential areas that concern their peoples and realize their hopes for a better future on the path to unity of their states...” (Secretariat General, 1991:3).

In spite of the common characteristics and similar perspectives which bind the peoples of the Arabian Gulf States, integration among the Gulf Cooperation Council in 1981 encountered difficult regional conditions and tough global situations, which created an atmosphere of instability and insecurity among the peoples and the states of this region. No research on integration among the Gulf Cooperation Council could realize the nature and dimensions of this integrative process unless it was aware of the political and economic situation that prevailed in this area during the foundation stage of the GCC. And it is difficult to imagine the aims and the goals of this multi-dimensional process and the unity-seeking efforts of these countries except by studying the regional political and economic environment that had seen the birth of this entity. And it is difficult to predict the future of this economic integration process far from the political and

economic situation surrounding the region that preceded the establishment of the Gulf Cooperation Council.

Some researchers tried to classify the factors behind integration among the GCC into two categories (Atiya, 1989):

First, basic factors characterized by a constant or semi-constant nature, which include:

- 1- The unitary elements that the GCC countries share, such as language, religion, heritage and a common history.
- 2- The significance of the resource factor for the region as a result of discovering oil.
- 3- The super-power conflict to control the region.

Second, subsidiary factors which prevailed in the region during the foundation stage, such as:

- 1- The Islamic revolution in 1979.
- 2- The Soviet invasion of Afghanistan.
- 3- The Iraq-Iran war from September 1980 to 1988.

Regardless of varying the views about the nature and importance of these factors in motivating the Gulf States to form the GCC, it is obvious -as in every regional organization- that the researcher could not put stress on a single factor as the only reason behind the setting up of the GCC (Ibid).

For the purposes of this research these factors may be divided into two main ones:

(1) Political factors, which include the Soviet Union's invasion of Afghanistan in 1979, the Islamic Revolution in Iran lead by Ayatollah Khomeini in 1979 and finally the Iraq-Iran war which broke out in 1980 and continued for eight years.

(2) Economic factors: which include: the failure of pan-Arab economic integration efforts, oil price fluctuation and the limitation of the GCC countries' internal markets:

4.3.1 First: The Political Factors:

4.3.1.1 The Islamic Revolution in Iran:

The Islamic revolution in Iran in 1979 totally changed the security picture of the Gulf, and contributed to the creation of a power vacuum in the area. As a result of British withdrawal from the region, the power vacuum in the Gulf was supposed to be filled by Iran. This was strongly supported by the United States of America, especially in the defence field. The Shah, at that stage, had happily accepted the role of Iran as a “policeman of the Gulf” (Christie, 1987). However, the dramatic changes in Iran after the fall of the Shah created a difficult situation in the region and helped to create a widespread feeling of threat among the Arab Gulf States concerning the future of the whole region.

The Iranian Islamic Revolution which arrived with revolutionary slogans, based on an extreme interpretation of the Islamic religion, specifically the Shiite creed, associated with the victorious emotions attendant on the removal of the Shah’s regime. This factor created a situation of instability in the region and generated a feeling of threat among the political regimes in the Gulf, caused by the spreading of revolutionary ideas among the peoples of this area, “especially after the revolutionary leaders disclosed their intention to export the revolution to neighbouring countries” (Al-Kasmi, 2000).

This rapid change in the Iranian political system in the region, led to the creation of a power vacuum in the Arabian Gulf, and revealed -at the same time- the United States’ inability to protect its allies in this area, such as the Shah’s regime, which was classified as the greatest strategic ally of the United States in the region. As a result, this situation motivated the Gulf States to think seriously about depending on themselves alone to protect their national interests, and to encounter the political and security challenges facing them collectively, by forming a regional system, including the six Arabian Gulf countries.

4.3.1.2 The Soviet Union invasion of Afghanistan:

The Soviet Union invasion of Afghanistan posed a strategic challenge to the Gulf States and to their Western allies, especially the US. This situation gave the Soviet Union a historical opportunity to reach the warm waters of the Gulf and to be closer to the Gulf oil fields which are the most important sources and reserves of power in the world.

Indeed, the presence of the Soviet Union in Afghanistan, a bare 350 miles from the Hormuz strait, through which all the oil tankers that transport imported oil to Western countries, in addition to the US and Japan, had to pass (Page, 1987) posed an enormous problems. Moreover, the Soviet invasion of Afghanistan in December 1979 made “the area’s defences begin to look very thin indeed” (Christie, 1987:10).

Nevertheless, in spite of the Soviet Union’s efforts to calm the Gulf countries terror about its real objectives towards the region, the Gulf States looked at the Soviet assurances suspiciously, and all the Soviet attempts to calm these countries through assurances and peaceful messages to the Arabian Gulf states and to their Western allies in the region, especially the United States, failed.

For example, the Brezhnev declaration issued by the Soviet Union leader he revealed for the first time, the Soviet Union’s attitude towards Gulf oil, claiming that: “the Soviet Union has no intention to put at risk the Middle East oil and its transport media”(Aghaa, 1982:21). In addition, the initiative proposed by the Soviet leader Brezhnev in 1980 during his visit to India, included the following five principles (Shukr, 1982):

- 1-Rejecting all foreign military bases in the region.
- 2-Respecting the Gulf States’ non-alignment.
- 3- Respecting the Gulf States’ right to control their natural resources.
- 4- Respecting the Gulf States’ sovereignty and not interfering in their interior affairs.
- 5- Assuring free movement of shipping from and to the Gulf.

All the Gulf States regarded these attempts with suspicion and failed to change their point view towards the Soviet Union threat, and its desire to be very close to the oil fields in the Gulf, which provide the United States of America and its western allies in NATO with their strategic oil needs.

4.3.1.3 The Iraq-Iran war:

Finally, the Iraq-Iran war, which broke out in 1980 and continued for about eight years. Some of the Gulf States were involved directly in this war through offering unlimited support to Iraq. The war assumed dangerous proportions when both countries (Iraq and Iran) attacked the oil tankers and oil refineries in the region. It also affected negatively the economies of the Gulf States by jeopardizing their oil exports, which were regarded as the main source of national income. Some GCC countries directly supported Iraq in the war, especially Kuwait and Saudi Arabia, which provided unlimited financial aid, as well as offering their ports to Iraq to enable it to import and export. All these decisions later contributed to the high debts and budget deficits suffered by these countries.

On the other hand, these dramatic challenges in the Gulf led the United States to change its policy in the region, and in 1980 it proclaimed the Carter Doctrine, according to which the United States specified the Gulf Region as an “area of US strategic interest in which US military power will be deployed whenever necessary” (Nakhjavani, 1991:14). As a result of this doctrine, the United States created the Rapid Deployment Forces in order to protect its interests in the Gulf region.

In conclusion, despite the attempts of the GCC states to keep their countries away from regional conflicts and international struggles, by sending directly or indirectly peaceful messages about their actual intentions in establishing the GCC, and their efforts to explain that the GCC “was not a pact or a bloc, neither was it directed against anyone, rather did it seek to realize the welfare and prosperity of the member countries and their peoples” (Qatar Ministry of Information 1983:9), the political and military dimensions were greatly occupying the minds of the architects of the GCC, especially the fear of the spread of the Iraq-Iran war, associated with the hesitation of the United States to play its role in protecting its friends in the region.

4.3.2 Second the Economic Factors:

The Arabian Gulf States encounter common economic challenges, and suffer from several economic difficulties. Part of these difficulties could be attributed to the fact that the economies of these countries are unilateral productive sectors, where oil production is not only the main source of national income, but also the elemental factor in leading the entire economic process.

Dr. Abdullah El-Kuwaiz the Assistant Secretary General for the GCC Economic Affairs, specifies several economic characteristics facing the Gulf Cooperation Council Countries as a group and individually. These are as follows (El-Kuwaiz, 1987: 76):

- The six member nations are overly dependent on the export of crude oil.
- Although the private sector has increased its share in the gross domestic product of the GCC states, from around 30 percent ten years ago to almost 55 percent currently, its role in the industrialization process is still below what it should be.
- Given GCC geographic and economic constraints, the group still faces a somewhat chronic scarcity of human resources, both skilled and unskilled.
- The GCC domestic markets are rather limited and highly scattered.
- If the GCC concentrates on international markets, it has to compete vigorously with the well-established manufacturers of industrial countries and other developing countries. It also has to enter into contractual agreements dealing with the very complicated subject of international trade, an area for which the GCC as an organization and the member states individually do not have any acquired expertise or long-term experience.
- Other than hydrocarbons, the GCC has very limited mineral resources and a scarcity of natural water.
- Although almost all infrastructure facilities are in place in the Arabian Gulf, interconnection among these facilities is almost nonexistent.
- Industrial regulations and legislation, as well as industrial incentives, are different in nature and application in each of the member states.
- The Arabian Gulf States do not have an indigenous technological base with which to encourage industrial growth and development.

For some time, oil revenues have formed more than 90% of the national income of some Gulf countries. Whereas, the mineral sector ratio does not exceed 10% in the industrial developed countries (Al-Kasmi, 2000). This situation forces these countries to cooperate and harmonize their economic policies in order to overcome these challenges.

In addition to this unilateralism in the economy, there are several economic issues that play a role in motivating economic integration among the Gulf States, such as (Atiya, 1989):

- 1- The limitation of domestic markets
- 2- Insufficient efficiency of the agricultural sector and water resource scarcity
- 3- The limited capability of the economic structures in the Gulf States to absorb the surplus on oil revenues
- 4- The huge dependency on immigrant manpower.

In this section the researcher will concentrate on some important economic factors, which have encouraged these countries to adopt economic integration as a vehicle to achieve their national objectives of prosperity and renaissance:

4.3.2.1 *The failure of Pan-Arab economic integration efforts:*

After the Arab Economic Unity Council decided in 1964 to establish the Arab Common Market, the Arabic people's aspirations for more integration and coordination continued in order to attain prosperity and development. Unfortunately, attempts at Arab economic integration failed to fulfil these national hopes and achieve the Arab people's aspirations for unity and integration.

Part of this failure might be referred to the desire of some Arab leaders -at that stage- to attain full Arabic unity from the first day, without adopting gradual steps, such as the European Union experiment did, which started with cooperation in the steel and coal

sectors as a takeoff point to achieve their final economic and political integration objectives.

Furthermore, the weakness of Pan-Arab trade relations in comparison to their economic relations with the Industrial Countries, or other third world countries was as a result of several factors prevailing in the 1960s and 70s, whereby some Arab Countries adopted a trade policy based on implementing a series of tariff and non-tariff restrictions, especially in those countries which chose a socialist creed as a way of life, and introduced it in the political and economic fields.

Also, because some Arab Countries highly dependent on customs revenues as a major source of their national income, the efforts that were exerted in the past to liberalize intra-trade were hampered by these countries, whose customs revenues form a high percentage of their national income.

Moreover, the high dependence of some Arab countries, especially oil producers, on their international trade with the Industrial countries, was another factor behind the failure of the Arab economic integration efforts.

In addition, the excessive demands from some Arab countries for more exclusions from removing import customs tariffs, and the absence of clear decisions regarding the free movement of goods, capital and people, was another factor behind the failure of these integration attempts. Also, the absence of legislative decision-making regarding carrying out the common policy and economic procedures in the Arab league was an important reason behind the failure of these integration processes, (Turkistani, 1986).

On top of that, the political disagreements between the Arab countries played a major role in inhibiting economic integration and this was responsible for the failure of many Arab joint economic projects, as well as the attempts of some political Arab regimes to exploit the Arab unity concept in order to improve their internal situation and use it as attractive means to continue in power for longer time.

As a result, the GCC countries decided to establish their own regional integration process far a way from other Arab countries attempts which faced several difficulties as clarified above.

4.3.2.2 Oil price fluctuation:

During the last two decades, the Gulf States have suffered from instability in the oil market, on which these countries highly depend as the main source of their national income. This fluctuation in oil prices have jeopardized the development plans and affected negatively the growth rates in this region.

Part of this problem is connected with the policies of the OPEC members, especially when they do not fulfil their commitment to oil exporting shares, and many OPEC members exceed the oil production ceilings which are specified by this organization.

In addition, the United States success in building its strategic oil reserves, which came about as a reaction to the oil shock in the seventies, when the Arabian Gulf countries used an oil boycott as a weapon against the countries which supported Israel during the Arab-Israelis war in 1973. These reserves later played a role in determining the oil price in the international market and helped to put an end to OPEC's role as the sole player in the international oil market.

Furthermore, the oil high price in the international market-during some stages-encouraged some countries outside the OPEC Organization to explore and exploit oil in some regions, which were classified as unprofitable before the oil boom. And these new oil discoveries became a strong competitor to OPEC oil and played a role in limiting OPEC control in the international oil market. All these factors played a role in affecting the oil market and as a result in creating an unstable situation in the gulf countries' economies.

The situation in the Arab Gulf Countries was described by Mr Salah Al-Marzouk, a board member of the Kuwait International Investment Company, who noted that (Moore, 1996): lower oil prices have not only created a negative effect on the external

balances of the GCC States, but also on the rate of the economic growth and internal balances, [or] the differences between government revenues and expenditures.

As a result, Al-Marzouk noted that, "extreme dependences on oil revenues has made government expenditure as the propelling force of the GCC economies, relegating the private sector to a secondary role. This is unlike the case in a typical market economy, where private investment is - through the multiplier - the income generator" (Moore, 1996:11).

Moore (1996) explains several consequences for the GCC countries' high dependence on oil exports: first of all, their intensive vulnerability to oil price fluctuation as a result of the differences in oil demand and supply, which have led to unpredictable growth-rates among the GCC Countries. Furthermore, the creation of employment opportunities throughout the Gulf Area has long ceased with respect to economic growth. For example, by 1980 the oil sector contributed about 50% of Kuwait's GDP, when it employed 1% of the country's total labour force.

What is more, reliance on the energy sector in general and on oil in particular "meant that the non-oil sectors remained sharply underdeveloped throughout the region a by-product of which was that few, if any, incentives were available for the private sector to invest in non-oil development, meaning that a disproportionate quantity of consumer goods and other durables needed to be exported from trading partners outside the immediate region. Non-oil trade deficits mushroomed as a result". Furthermore, reliance on oil exports lessens the need for the development of intra-regional trade and industrial cooperation among the Gulf Cooperation Countries. For example, between 1991 and 1993 inter-Arab exports accounted for only 9.2% of all Arab exports (Moore, 1996: 11).

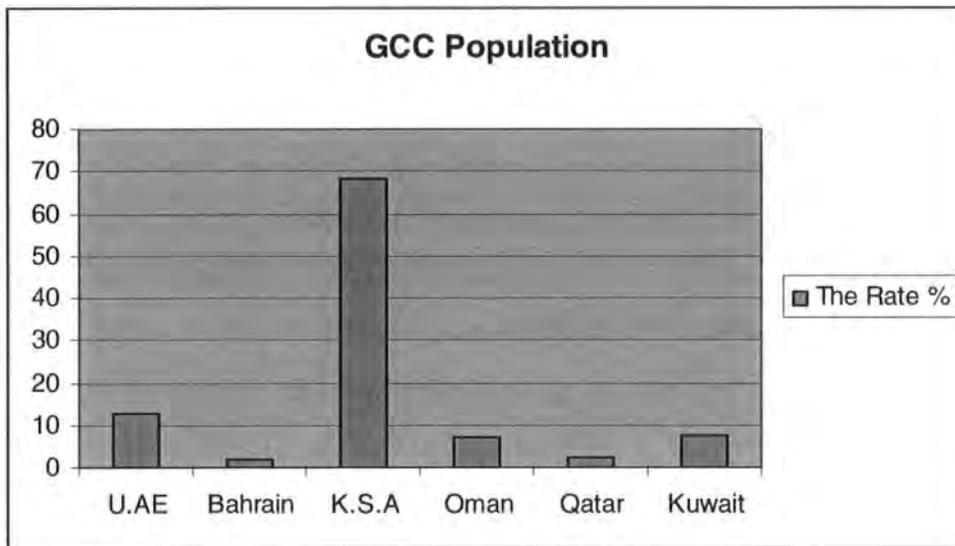
4.3.2.3 *The limitation of the GCC internal market:*

In spite the fact that the peoples of this region enjoy the highest rate of per capita income relative to world levels, the Arabian Gulf States' domestic markets are still limited with regard to the number of consumers. In fact, these countries are suffering

from a lack of population, which has forced them to greatly depend on immigrant manpower to implement their national development plans.

For example, in 1980, immigrants formed about 90% of the United Arab Emirates labour force, 80% of the Kuwait and Qatar labour force, 53% of the Saudi Arabian and 40% of the Sultanate of Oman labour force (Al-Kasmi, 2000).

Figure: 4.1 GCC Populations



On the other hand, there is an enormous variety in the demographic distribution of the population amongst the GCC countries. According to the GCC Statistics Bulletin, 2005, the GCC population number about 30 million. 68% of them belong to Saudi Arabia, 12.5% the United Arab Emirates, 7% the Sultanate of Oman, 8% Kuwait, 2% Bahrain and 2% Qatar.

Table 4.1: GCC Population Number

Country	Population	The Rate %
U.AE	4,041,000	12.5
Bahrain	0,689,418	2.1
K.S.A	220,018,739	68.1
Oman	2,340,815	7.2
Qatar	0,718,766	2.2
Kuwait	2,484,334	7.6
Total	32,293,072	100

Source: GCC Economic Bulletin, Vol: 15

This relative shortage of population has affected negatively the efforts that were exerted by these countries to look for large markets for their national products, and is hindering the efforts to ensure huge markets for GCC national products, which was regarded as one of the major factors behind the establishing of the GCC.

As a result, the national industries in these countries have been deprived of benefiting from large-scale production and these products encounter hard external competition, especially under the open market policy, which is followed by most Arabian Gulf countries.

All these economic factors have encouraged the GCC countries to look forward the economic integration amongst them in order to remove all the obstacles impeding the free movement of goods amongst the GCC countries.

4.4 GCC Objectives:

The GCC is an economic, political, social and regional organization, according to its constitution (Diplomatic Centre for Strategic Studies, 2001). Article five of the GCC charter restricted membership to the “six states that participated in the foreign ministers’ meeting held at Riyadh on 4 February 1981” (General Secretariat, 1991: 4) and they decided that Riyadh would be the Gulf Cooperation Council headquarters.

The GCC objectives came to reflect the nature of the relations that will bind these countries in the future, and reflect the political and economic realities that govern the member states on the ground. Therefore, these objectives are formulated carefully to express the nature and the grade of integration or unity that these states are looking towards.

Indeed, despite the fact that these states established a GCC to face collectively the regional and international challenges, and to encounter the dramatic political and economic changes in the region, the formulation of the GCC charter was written carefully to reflect the member states' potential and actual concerns on the ground.

No one can ignore the fact that maintaining national sovereignty is a crucial issue, and something not easily sacrificed, especially if one considers that most of the integration members of this region are relatively modern independent states, and that they are very sensitive towards subjects relevant to the sovereignty issue. In addition to the huge differences in capabilities and the factors of power amongst its members, it is clear that there is a huge diversity in the size of the populations, in the vast differences in the area of the countries and the national resources as well as in the size of the economies of the participant countries.

Maintaining the sovereignty issue may be clearly observed in several sections of the GCC charter, which uses phrases like "peoples" instead of "people" to describe the future relation between the member states, and a mention in the charter's foreword, which refers to: "believing in the common destiny, and the unity of aim which link their peoples"(GCC Charter, 1991:3).

Moreover, article nine of the GCC charter reflects the equity between independent states, when it states that "Each member state of the supreme council shall have one vote...(and) resolutions of the supreme council in substantive matters shall be carried by unanimous approval of the member states participating in the voting. While resolutions on the procedural matters shall be carried by majority vote" (Ibid: 6).This situation

motivates GCC countries to avoid entering into any ambiguous relations which might threaten their national sovereignty in the future.

So the terms of the GCC's constitution, as described by John Christie, "are both comprehensive and far-reaching. It speaks (Article 4) of "the ultimate aim of unity" and an eventual confederal union emerging from the GCC frame work" (Christie, 1987:10).

The objectives of the GCC are mentioned clearly in article four of the GCC charter, which is regarded as the constitution of the Gulf Cooperation Council. These basic objectives are (General Secretary, 1991:4):

1. To effect co-ordination, integration and inter-connection between Member States in all fields in order to achieve unity between them.
2. To deepen and strengthen relations, links and areas of cooperation now prevailing between their peoples in various fields.
3. To formulate similar regulations in various fields including the following:
 - a. Economic and financial affairs
 - b. Commerce, customs and communications
 - c. Education and culture
 - d. Social and health affairs
 - e. Information and tourism
 - f. Legislative and administrative affairs.
4. To stimulate scientific and technological progress in the fields of industry, mining, agriculture, water and animal resources; to establish scientific research; to establish joint ventures and encourage cooperation by the private sector for the good of their peoples.

From reading these objectives the wide diversity in fields of cooperation and integration which the GCC founders aimed to achieve, may be noted, and the intensive

concentration on the economic dimension as the leading sector for this integration process, may be clearly observed.

Abdullah Yacoub Bishara the GCC Secretary General offers several reasons for this great stress on the GCC charter in its economic dimensions, which stand behind the integration efforts among the GCC countries (Abdullah, A. (1991) :

The age in which we live is characterised by large-scale production. In general, the advantages of reduced cost of production cannot be achieved unless mass production, which supports the creation of large factories, is undertaken. However, in order to justify the establishment of these factories, the barriers obstructing the movement of these products to a vast and stable market must be removed.

The construction of large production units is a development process leading to the use of modern technology and the diversification of sources of income.

The linkage between the main infrastructure and the removal of barriers will lead to the enlargement of the market. Consequently, the absorption capacity of the GCC member states will be increased.

The similarity between modes of production, export and import, geographical trends, and unification of outlook will enhance the possibilities for the member states to obtain better conditions.

Moreover, these objectives came to reflect the endeavours of the GCC states to maintain the defensive and security objectives which did not appear to be strong in the GCC charter, but they avoided giving them the foremost priority in the GCC objectives so as to avoid any misunderstanding among the neighbouring Gulf countries, about any suspect motives behind the formation of the GCC, which might be considered as a military pact constituted to counter any regional power.

In addition, despite the GCC charter's declaration about achieving "co-ordination, integration and inter-connection between Member States in all fields in order to achieve unity between them" the form of this unity (federal or confederal) was not clearly

determined nor the extent of the integration process between the GCC countries (Al-Baharnah, 1994).

4.5 Organizational Structure of the GCC:

The GCC, as a regional organization, consists of five bodies: the Supreme Council, the Consultative Commission for the GCC Supreme Council, the Commission for the Settlement of Disputes, the Ministerial Council and the General Secretariat. In order to highlight the functions of each body, they will be discussed individually, as follows:

4.5.1 The Supreme Council:

According to article seven of the GCC charter, the Supreme Council is the highest authority of the GCC and is composed of the Heads of Member States. Its presidency rotates according to the Arabic alphabetical order of the names of Member States. It convenes one regular session every year. But, extraordinary sessions may be convened at the request of any Member State seconded by another.

During the 19th summit held in Abu Dhabi, in 1988, the Supreme Council decided to hold a consultative meeting in between two summits every year (<http://www.gcc-sg.org/Organisational%20.html>).

According to article seven and nine of the GCC charter, meetings of the Supreme Council are considered valid if attended by two-thirds of the Member States, at which each has one vote - as mentioned earlier. Resolutions on substantive matters are issued by unanimous approval of the members present, while a majority is enough to approve those of procedural matters (Ibid).

The functions of the Supreme Council are determined in article eight of the GCC charter. Realizing the objectives of the Cooperation Council comes at the top of the Supreme Council's functions. The charter determines these specific functions (Secretariat General, 1991:5-6):

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 joint ventures 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 the Settlement of Disputes and nominate its members.
7. Appoint the Secretary-General.
8. Amend the Charter of the Cooperation Council.
9. Approve the Council's internal rules of procedure.
10. Approve the budget of the Secretariat-General.

It should be observed that the GCC charter concentrated power in the Supreme Council, which held its meeting only once a year. This situation contributed to hindering the GCC integration process, and later played a role in the slow progress of the integration process amongst the GCC members.

4.5.1.1 The Consultative Commission for the GCC Supreme Council:

In December 1997 the GCC Supreme Council decided in its eighteenth session, which was held in Kuwait, to establish an advisory commission for the Supreme Council, composed of 30 members - five from each of the GCC member states for three renewable years (Diplomatic Centre for Strategic Studies: 2001)

The Consultative Commission members are chosen according to their experience and qualifications. The Consultative Commission is charged with studying matters referred to it by the Supreme Council (<http://www.gcc-sg.org/Organisational%20.html>).

However, despite the limited role of the Consultative Commission, this step could be regarded as the first towards public participation in the GCC decision-making, and a symbolic step towards more public participation in the GCC institutions.

4.5.1.2 *The Commission for the Settlement of Disputes:*

This commission is formed by the Supreme Council for every case on an ad-hoc basis in accordance with the nature of the dispute. According to article ten of the GCC charter the function of this commission is to “submit recommendations or opinion, as applicable to the Supreme Council, for such action as the Supreme Council deems appropriate”(General Secretariat, 1991:6).

Despite the earlier statement about the role of this commission in the GCC charter, no single issue for settlement has been discussed by this commission during the last quarter century. The GCC countries even failed to solve the dispute between Qatar and Bahrain about Hawar and Sheft Al-Deble Islands, within the GCC institutions, and the relevant parties preferred to raise the issue at the International Court of Lahay.

4.5.2 *The Ministerial Council:*

The Ministerial Council, which comes below the Supreme Council, is made up of the foreign affairs ministers of the six member states. The Ministerial Council is the working policy group of the GCC (Christie, 1987). The Presidency of the Ministerial Council is entrusted to the member state that presided over the last ordinary session of the Supreme Council or, when necessary, to the member state that is next to preside over the Supreme Council. The Ministerial Council convenes every three months, and may hold extraordinary meetings upon the request of one member state seconded by

another, the attendance of two thirds of the member states is necessary in order to consider the meeting valid (<http://www.gcc-sg.org/Organisational%20.html>).

Article twelve of GCC charter determines the following functions for the Ministerial Council (General Secretariat, 1991):

1. Propose policies, prepare recommendations, studies and projects aimed at developing cooperation and co-ordination between member states in various fields and adopt the resolutions or recommendations required in this regard.
2. Endeavour to encourage, develop and co-ordinate activities existing 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 effect.
4. Encourage means of cooperation and co-ordination between the various private sector activities, develop existing cooperation between the member states' Chamber of Commerce and Industry, and encourage the movement within the GCC of workers who are citizens of the member states.
5. Refer any of the various aspects of cooperation to one or more technical or specialized committees for study and presentation of appropriate recommendations.
6. Review proposals related to amendments to this Charter and submit appropriate recommendations to the Supreme Council.
7. Approve Rules of Procedure of both the Ministerial Council and the Secretariat General.
8. Appoint the Assistant Secretaries-General, as nominated by the Secretary General for a period of three years, renewable.
9. Approve periodic reports as well as internal rules and regulations relating 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 meetings of the Supreme Council and prepare its agenda.

11. Review matters referred to it by the Supreme Council. According to article thirteen of the GCC charter, procedures for voting are similar to those applicable at the Supreme Council (*Ibid*: 8).

4.5.3 The Secretariat General:

The Secretariat General is supposed to play the executive role in the integration process among the GCC, and it is regarded as the force driving the integration process of the GCC. Riyadh is the headquarters of the GCC Secretariat General. A Secretary General heads the General Secretariat, assisted by three Secretaries General Assistants; the first of them is entrusted with economic affairs, the second is the Assistant Secretary General for political affairs, and the third is the Assistant Secretary General for military affairs.

Article fourteen of the GCC charter states that “ 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 once only” (Secretariat General, 1991: 8). The Secretariat General is composed of the following sectors: Economic Affairs, Political Affairs, Military Affairs, Human and Environmental Affairs, Legal Affairs, Finance and Administrative Affairs, Information Centre, Information Department and the Technical Telecommunication Bureau in Bahrain and the GCC delegation in Brussels (Diplomatic Centre for Strategic Studies, 2001).

The Secretariat General’s functions are specified according to article fifteen of the GCC charter, which includes “preparing studies related to cooperation, co-ordination, and integrated plans and programmes for joint work. It is also entrusted with the preparation of periodic reports on the work of the GCC, follow-up implementation of the resolutions, and preparing reports and studies when requested by the Supreme Council or the Ministerial Council. The Secretariat also makes preparation for meetings and prepares the agendas and draft resolutions for the Ministerial Council” <http://www.gcc-sg.org/Organisational%20.html>).

From a first glance at the functions of the General Secretariat, it seems that the participant countries desired to curb the role of this regional organization and limit its

functions to very specific issues. They did not want to delegate power for this institution to play its role in boosting regional integration, and participating efficiently in the decision-making process, so they restricted its role to that of a mere secretarial function without any real authority or executive power, both of which are regarded as very important in enabling this institution to play its role in boosting and supporting the regional integration process.

This weakness in the delegation of power to the GCC General Secretariat, and the limited functions of this organization were reflected in the GCC integration process, especially in the economic field, where the slowness of the economic integration process could be noted, in that the member states took about twenty five years to move from the free trade area stage to the customs union stage.

Moreover, this limitation in the role of the GCC General Secretariat could be observed, even at the political level, where the GCC Countries failed to reach a common position on some of the regional issues. For example, when the General Secretary Abdulla Yaqoob Bishara, in 1986, denounced, in the name of the GCC countries, the American attack against Libya by President Ronald Reagan, the Sultanate of Oman issued a statement, at that time, against the General Secretary's statement, expressing its objection to the Bishara declaration, because as, the Sultanate of Oman pointed out, "No one delegated the Secretary General to talk on behalf of the participant countries".

4.6 GCC Intra-Trade

Developing intra-trade among the GCC countries and increasing the volume of mutual trade amongst the participant countries was one of the main goals behind establishing economic integration among these countries. Therefore, not surprisingly GCC countries announced from the first day of the birth of this regional entity the establishment of the GCC Free Trade Area in 1983 and their honest desire to remove all tariff and non-tariff barriers which were facing the free movement of goods amongst the participant countries. Moving later from the free trade area stage to the customs union in 2003, through adopting common customs tariff against the external world and ensuring the free movement of products amongst the participant countries, in addition to adopting the GCC unified customs law.

However, despite the relative success and achievements that were attained during the GCC economic integration process, several challenges remained facing the GCC states ambitions for developing intra-trade relations. Most of these challenges come about as a result of the fact that the structure of these countries' economies is almost identical and depends on crude oil and petrochemical products as the main exports, and the volume of trade exports and imports of the GCC countries still is closely connected to the industrial countries.

According to Al-Hiti (2003) the percentage of the oil exports formed about 90% of the total GCC exports in 2000 in all the GCC countries except Bahrain which formed 65.5% and the UAE 84.3%. However, this situation continued despite the efforts that were exerted by the GCC countries to diversify their economies by building a manufacturing industries base. And the contribution of the manufacturing industries sector in GCC GNP increased only from 6.3 in 1980 to 9.5 in 2000.

4.6.1 Development of Intra- GCC Trade Exports and Imports

Figure: 4.2 Intra GCC Trade (1983-1993)

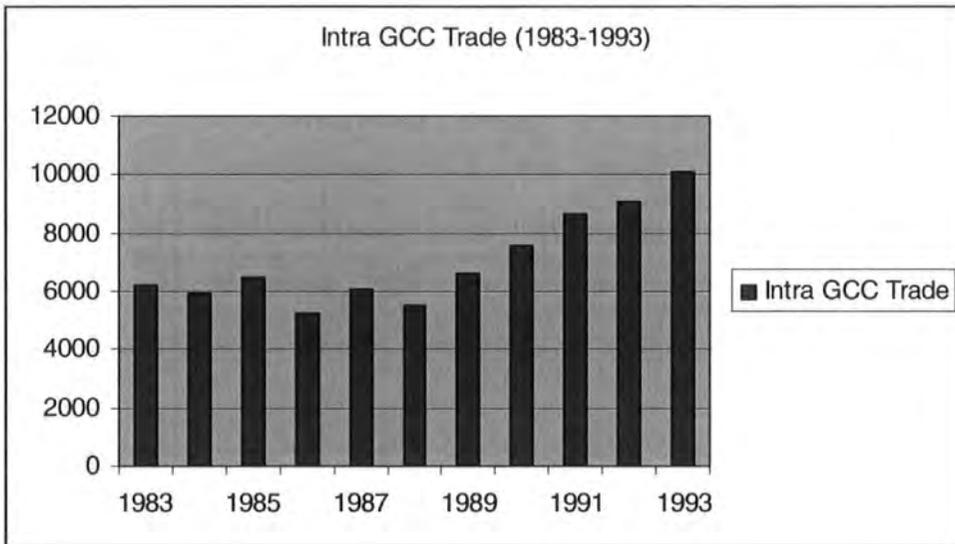
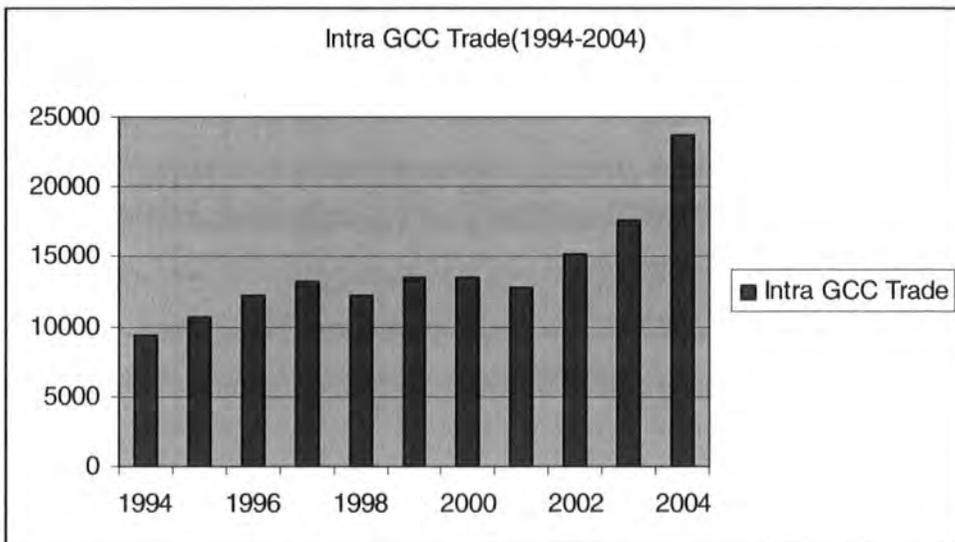


Figure: 4.3 Intra GCC Trade (1994-2004)



GCC intra-trade showed quite noticeable fluctuations and unstable growth from its establishment of in 1981 to 1993. As can be seen from table 4.2 the volume of intra-trade decreased from \$ 9242.6 million in 1981 to reach its lowest level in 1986 about \$ 5245.2 million.

Table 4.2: INTRA-GCC TRADE (IMPORTS & EXPORTS)

1981-2004

Year	1981	1982	1983	1984	1985	1986	1987	1988
Value	9242.6	7816.0	6187.4	5925.8	6470.1	5245.2	6041.8	5495.6
Year	1989	1990	1991	1992	1993	1994	1995	1996
Value	6626.4	7538.3	8664.2	9035.9	10102.3	9380.1	10712.2	12262.9
Year	1997	1998	1999	2000	2001	2002	2003	*2004
Value	13269.1	12214.8	13513.1	13477.6	12746.3	15137.1	17675.5	23694.9

* IMF figures cited by: http://www.gccsg.org/achievement_stat2005/achvmt15.html

This decrease could be attributed to the swing in oil price which prevailed at this stage and the depression in the GCC economies that occurred as a result of this fluctuation in oil revenues, in addition to the Iraq-Iran war which consumed a great deal of the revenues of some GCC countries. This slowness in GCC intra-trade growth continued particularly in 1989 and 1990 as a result of the Iraq invasion of Kuwait. Thus the volume of GCC intra-trade did not exceed \$ 6626 million in 1989 and \$ 7538.3 million in 1990.

However, a steady increase in GCC intra-trade could be observed throughout the last three years, when the volume of trade grew rapidly from \$ 15137.1 million in 2002 to 17675.5 in 2003 to reach a peak of about \$ 23694.9 million in 2004.

4.6.2 Intra-GCC Exports

Despite the political and economic difficulties that the GCC economic integration process encountered, intra- GCC exports have seen a noticeable improvement, especially during the last decade. Part of this improvement could be attributed to the success of some GCC countries industrial policies which aim to build an industrial base in order to diversify their economic structure and lessen the high dependence on oil as the main source of national income especially after the high fluctuations in oil price during the eighties of the last century.

According to Al-awaisheg et al (2005) the total GCC intra-exports rose from \$5.5 billion in 1993 to \$ 9.4 billion in 2002 with an annual growth average of 6.4% during this period. Whereas, in 2003, which was the first year of the customs union inception, the rate of GCC intra-exports jumped rapidly to 25% in comparison with 2002 to reach 11.7 billion US\$. This rate of growth was the highest value it has been registered for the GCC intra-exports since the inception of the GCC customs union.

Figure: 4.4 GCC Intra- Export (1993-2003)

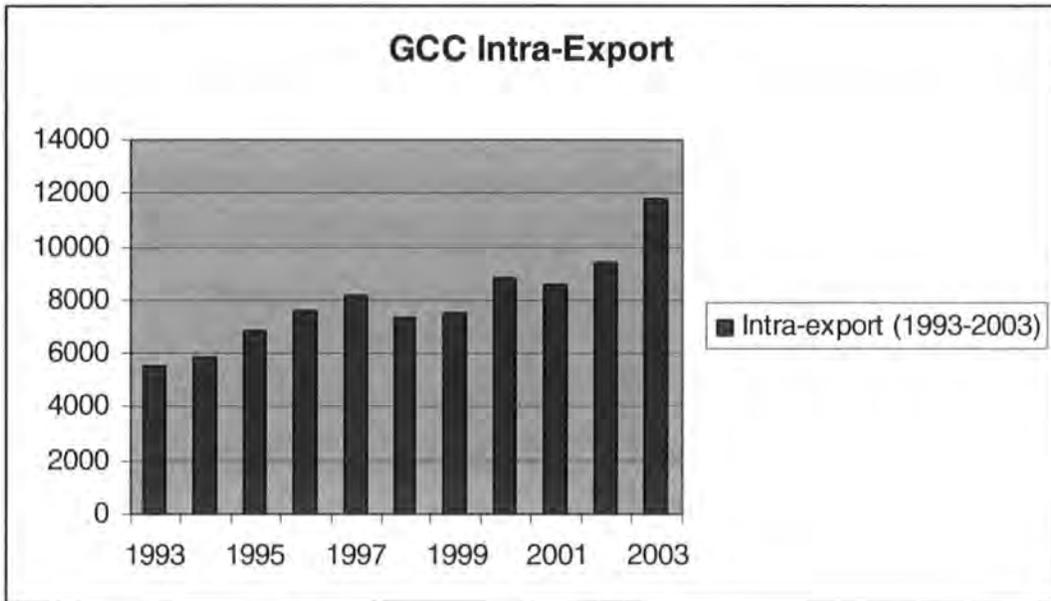


Figure: 4.5 Intra Export (2003)

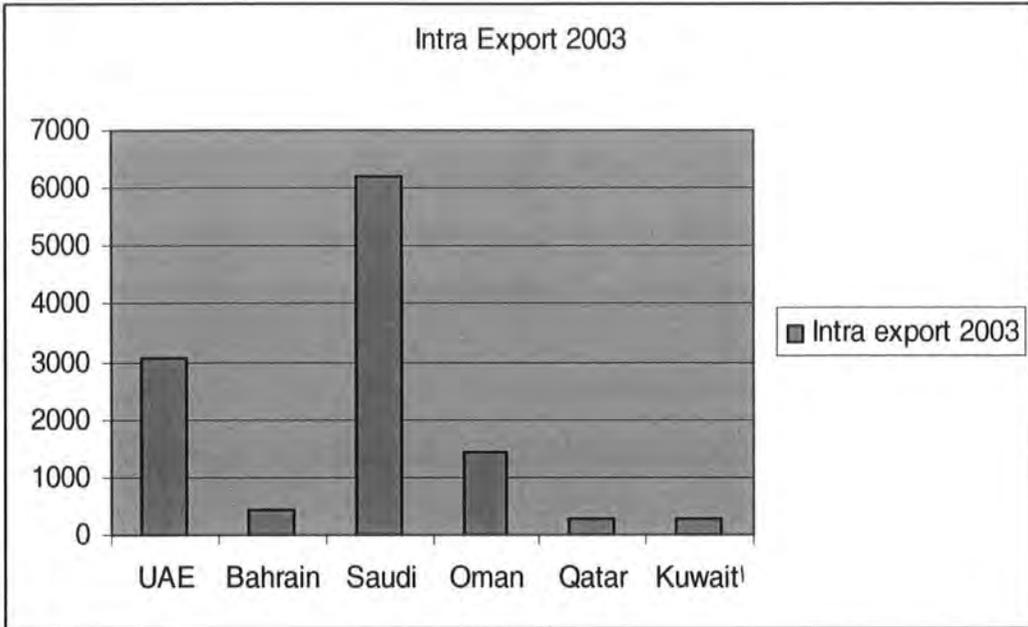


Table 4.3 shows that the share of Saudi Arabia, UAE and the Sultanate of Oman were at the top of the GCC countries intra-exports in 1993, they formed 50% , 27% 10% respectively of the GCC intra-exports. On the other hand, the Saudi exports in 2003 formed 53% of the total GCC intra-exports in comparison to 26% for the UAE intra-exports and 12% for the Sultanate of Oman. Whereas, Bahrain exports formed only4%, Qatar and Kuwait intra-exports shares did not exceed 2% for both ofthe total GCC intra-exports.

Table: 4.3 GCC Intra-Exports

Million US\$

Year	UAE	Bahrain	Saudi	Oman	Qatar	Kuwait	GCC
1993	1487	343	2768	572	202	134	5505
1994	1642	369	2868	632	212	154	5877
1995	1618	426	3581	722	243	232	6823
1996	1709	439	4336	722	225	182	7613
1997	1899	382	4551	867	215	198	8112
1998	2256	448	3318	897	231	205	7354
1999	2216	414	3550	884	233	237	7533
2000	2679	399	4259	1004	236	228	8805
2001	2667	426	3929	1032	273	242	8567
2002	2730	444	4456	1273	258	236	9396
2003	3070	457	6208	1449	289	263	11736

Source: <http://library.gcc-sg.org/Arabic/Books/ArabicPublish-21.htm>

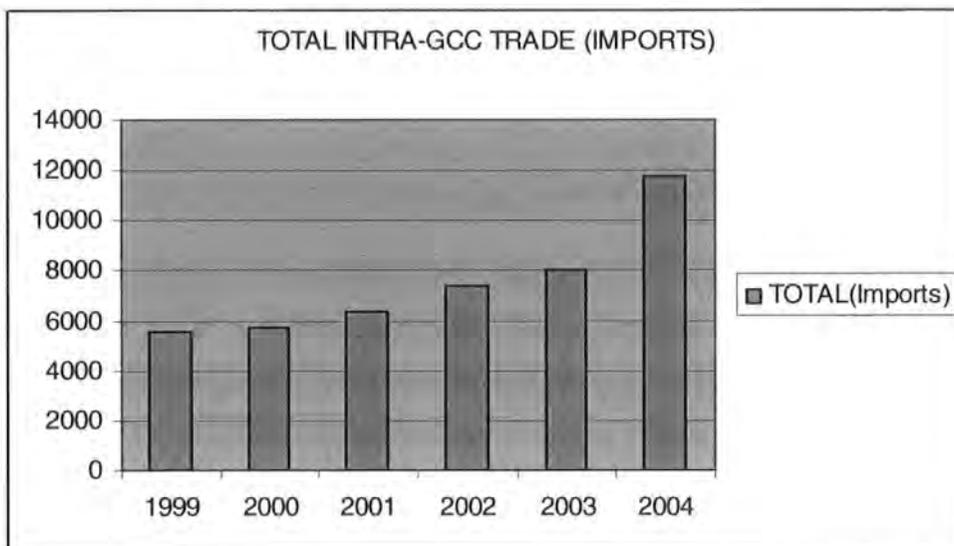
4.6.3 Intra- GCC imports

Intra-GCC imports have shown a noticeable improvement especially during the last years. This improvement in intra-GCC imports could be attributed partly to the increase in oil prices on the international market, which led to a relative stability in the GCC countries revenues and an improvement in their purchasing power. In addition, GCC countries have been deeply involved in huge infrastructure and manufacturing industry projects during the past decade as a part of these countries economic policy to diversify their national income in order to overcome the negative effects of oil price fluctuations. This reflected negatively on the GCC countries economic plans, especially during 1980s when the oil prices reached the rock bottom because of the slump in the international demand as a result of sluggish growth in the industrial countries. In addition, the failure of OPEC efforts to control oil prices in the international markets played a role in affecting the revenues of this region and the rate of imports during this period.

However, the success of the GCC countries experiment in mutually developing the economic integration process and the efforts that were exerted by the people of this region to overcome the impediments which the GCC intra-trade encountered to ensure the free movement of goods was a strong factor behind the growth in intra-GCC imports, particularly when these countries won in embodying their desire for more economic integration by moving from the free trade area to the customs union stage. Such a step greatly helped in the removing a number of tariff and non-tariff barriers which intra-GCC trade had encountered.

According to the IMF statistics -table 4.4 and table 4.5- the volume of GCC intra-imports grew from \$ 3891.8 million in 1993 to \$ 5700.7 million in 2000. It also developed dramatically to about double during the last five years when it jumped from \$ 5700.7 million in 2000 to \$ 11760.0 million in 2004.

Figure: 4.6 Total Intra- GCC Imports (1999-2004)



Intra- GCC Imports (2004)

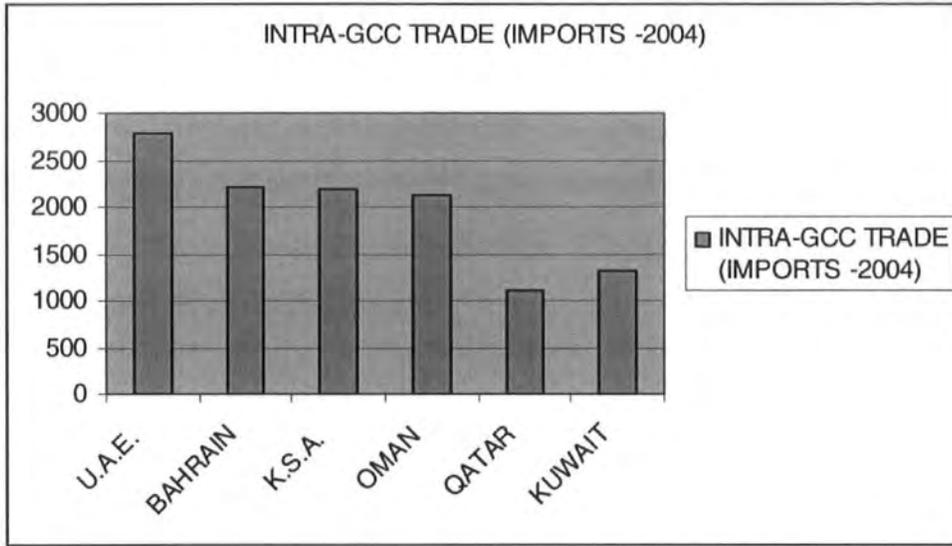


Table: 4.4: INTRA-GCC TRADE (IMPORTS)

(million dollars)

Particulars	1993	1994	1995	1996	1997	1998
U.A.E.	809.8	943.8	1070.1	1071.4	1181.0	1285.9
BAHRAIN	*279.4	*287.2	*316.5	*301.5	*324.6	*329.8
K.S.A.	631.7	656.1	752.6	891.2	882.3	1008.6
OMAN	1328.8	1264.6	1217.6	1282.5	1458.2	1640.4
QATAR	272.1	277.8	346.7	357.6	439.6	526.6
KUWAIT	569.9	607.2	753.7	805.7	872.8	820.7
TOTAL	3891.7	4036.7	4457.2	4709.9	5158.5	5612.0

* Excluding Oil.

Table: 4.5: INTRA-GCC TRADE (IMPORTS)

(million dollars)						
Particulars	1999	2000	2001	2002	2003	**2004
U.A.E.	1326.2	1236.6	1478.9	1817.2	2022.6	2795.9
BAHRAIN*	*353.7	*377.7	*398.9	*497.3	*577.0	2219.1
K.S.A.	1090.0	1078.6	1214.1	1481.1	1613.3	2191.8
OMAN	1526.8	1673.0	1924.6	1993.1	1826.0	2133.7
QATAR	439.8	483.4	457.2	623.7	728.9	1102.6
KUWAIT	795.2	851.4	877.9	988.4	1257.8	1316.9
TOTAL	5531.7	5700.7	6351.6	7402.7	8025.6	11760.0

* Excluding Oil. ** IMF figures

Source: http://www.gcc-sg.org/achievement_stat2005/achvmt15.html

Tables 4.4 and 4.5 show that the UAE GCC intra- imports share occupied the first rank. It formed about 24% of the total GCC intra-imports to record 2795.9 Million US \$ in 2004, whereas, Saudi Arabia intra-imports formed 19% about \$2191.8 million. Bahrain and the Sultanate of Oman occupied the same rank with about 18% of the total GCC intra-imports.

On the other hand, Kuwait imports value reached \$ 1316.9 million accounting for about 11% of the total GCC intra-imports in the same year, in comparison to 9% for Qatar imports valued at \$ 1102.6 million.

It is important to state that data regarding intra-trade among GCC countries could be carefully investigated, as Dubai's ports work as transshipment, and therefore re-exporting is an issue.

4.6.4 Oman Trade (Exports and Imports) with GCC Countries

In spite of the difficulties that encountered the Sultanate of Oman in its trade relations with some GCC countries especially the continuation of deficit in its trade balance, Omani trade with the GCC countries has seen a noticeable development especially during the past two decades.

According to the GCC statistics, in 1993 Oman's exports to the GCC countries formed 10% of the GCC total exports, whereas Saudi exports formed 50% and UAE 27% during the same year. However, the Sultanate of Oman's share of the GCC intra-exports varied during the period 1993-2003 from 9% to 14%, and the volume of Omani exports to the GCC countries grew gradually from \$ 572 million in 1993 to \$ 867 million in 1997. And it continued increasing from \$ 897 in 1998 to reach its peak in 2003 to account for \$ 1449 million.

Table: 4.6: Oman Intra-GCC Exports

million dollars

YEAR	U.A.E.	BAHRAIN	S.A.	QATAR	KUWAIT	GCC
1993	505	8	42	7	10	572
1994	549	8	55	7	14	632
1995	631	9	55	9	18	722
1996	617	9	65	15	15	722
1997	745	11	73	11	28	867
1998	746	14	101	16	19	897
1999	718	11	116	17	22	884
2000	778	12	163	20	30	1004
2001	781	15	189	21	25	1032
2002	1009	22	181	34	26	1273
2003	1124	27	231	38	29	1449

Source: <http://library.gcc-sg.org/Arabic/Books/ArabicPublish-21.htm>

As can be seen from the above table, Oman's exports to the UAE formed the highest percentage of its exports to the GCC countries 76-88% throughout the period 1993-2003. It has developed from \$ 505 million in 1993 to reach \$1124 million in 2003, whereas its exports to Saudi Arabia grew from \$ 42 million in 1993 to reach \$ 231 million in 2003 (Al-Awaisheg *et al*, 2005).

This rapid increase in the Omani exports could be attributed to the enhancement of the oil prices on the international market, which played –as a result- a role in increasing the GCC countries purchasing power, in addition to the Sultanate of Oman policy to diversify its national income resources through building an industrial infrastructure to lessen its high dependence on oil as the main source of national income. Therefore, the Omani government's decision to set up the Sohar Industrial Area which attracted - within a short time- industrial investments valued at about \$13 billion, which contributed later in enhancing the Sultanate's exports to the GCC countries especially to the United Arab Emirates.

Oman's imports, on the other hand, from the GCC Countries, which witnessed an obvious increasing trade. According to the GCC statistics, Oman imports from GCC in 2003 occupied the second grade; it formed 21% of the total intra-GCC imports, whereas, UAE occupied the first rank of 30% and Bahrain the third with about 18% of the total GCC intra-imports.

However, table 4.7 shows that the volume of Oman imports grew from \$1329 million in 1993 to \$1458 million in 1997 and it jumped from \$1640 in 1998 to reach its peak of \$2013 million in 2003.

Table: 4.7: Oman Intra-GCC Imports

(million dollars)

YEAR	U.A.E.	BAHRAIN	S.A.	QATAR	KUWAIT	GCC
1993	1154	71	88	8	8	1329
1994	1139	14	97	6	8	1265
1995	1012	19	162	15	10	1218
1996	1087	30	141	15	10	1283
1997	1217	39	183	8	11	1458
1998	1432	19	168	10	11	1640
1999	1314	22	159	12	20	1527
2000	1706	28	207	8	26	1974
2001	1655	28	200	8	25	1916
2002	1561	29	189	7	24	1809
2003	1737	32	210	8	26	2013

Source: <http://library.gcc-sg.org/Arabic/Books/ArabicPublish-21.htm>

According to Al-Awaishq's study, Omani imports from the GCC countries are regarded as one of the highest percentages of its intra- GCC total imports, especially its imports from the United Arab Emirates which formed 83-90% of its total imports from GCC countries, which grew from \$1154 million in 1993 to reach \$1737 million in 2003, whereas its imports from Saudi Arabia which comes as the second trade partner to the sultanate of Oman formed only 7-13% of Omani imports and it grew from \$88 million in 1993 to reach \$210 million in 2003 (ibid).

This growth in the volume of the sultanate imports from the GCC countries especially from the United Arab Emirates and Saudi Arabia could have contributed to the

enhancement of the oil price on the international market which played a role in increasing Oman purchasing power, and the huge infrastructure projects the Sultanate of Oman involved in, especially during the last decade.

Table: 4.8: Development of Oman Intra-GCC Imports and Exports

Year	Imports	Exports
1993	1329	572
1994	1265	632
1995	1218	722
1996	1283	722
1997	1458	867
1998	1640	897
1999	1527	884
2000	1974	1004
2001	1916	1032
2002	1809	1273
2003	2013	1449

Source: adapted from Table 4:6 and Table 4:7

Table 4.8 depicts the continuation of the deficit of Omani balance of trade with the GCC countries and the sustained gap between the volume of Omani imports from the GCC countries and the Omani exports to these countries.

In any case, these numbers about the volume of trade between the Sultanate of Oman and the other GCC countries should be taken cautiously. Particularly if it is known that the diversity in volume and values of trade statistics between one country and another is as a result of the absence of common criteria between the GCC statistics sections about the classification of imported, exported and re-exported goods. For instance, a lot of goods which are imported from Dubai internal market by the Omani businessmen should not be classified as imports because they are not UAE national products, they should be regarded as re-exports not imports, especially after Dubai city became an international centre for goods re-export activity.

4.7 Conclusion

Despite the political and security factors that surrounded the Gulf Area during the setting up of the GCC in the early 1980s, economic factors tried to maintain the progress of regional integration and transform it into the cornerstone of this process amongst the GCC Countries.

However, this rapid development in the volume of economic and commercial relations between the GCC member states was not associated with creating strong supra-national institutions, as the neo-functional theory assumes, and the functions of the General Secretariat were very limited, and there was no real delegation of power from the participant countries in favour of this regional institution. This situation played a role in hindering the GCC integration process and was a factor in the slow economic integration of the GCC during the last twenty five years.

Furthermore, the decision-making power which - according to the GCC Charter - was concentrated in the Supreme Council, which consisted of the Heads of State of the participant countries, was another obstacle to the progress of GCC integration, especially if one considers that this Supreme Council is convened but once a year and these meetings - like many summit meetings - usually continue for one or two days without any real opportunity to discuss intensively and in depth the political and

economic integration process issues. This situation contributed to the slowing down of the economic and political integration process amongst the GCC countries.

What is more, the role of the GCC civil society institutions in this regional integration process was very limited. Part of this phenomenon might be attributed to the absence of a role for these institutions at state level, where none of the GCC countries allows trades unions or political parties to participate in public issues.

Finally, the GCC countries, by insisting on unanimity in their decision-making, helped to impede the regional integration process, and committed the same mistake as the Arab League, where a similar state of affairs – namely, the opposition of one of its member states - was responsible for its failure to take a decision about a very critical issue.

CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 Introduction

This chapter provides a brief overview of the research design and the processes that were adopted by the researcher in data collection and the methods used for gathering data.

To give an idea of the circumstances surrounding the process of data collection, the researcher will endeavour to describe the background and conditions in which the research was conducted with the Omani businessmen, such as the difficulties confronted by the researcher while he was trying to obtain access to them or during the process of selecting the survey sampling.

The research method used in this study was based on a combination of quantitative and qualitative techniques, in which the researcher used a questionnaire survey method to collect the primary data from Omani businessmen so as to find out their attitudes about GCC economic integration, especially after the establishment of the customs union. A focus group interview technique was also used with Omani senior officials belonging to a number of Ministries, associated with the GCC economic integration process in the Sultanate of Oman.

The focus group was employed in this research as an instrument to support the results obtained by the questionnaire, which was used with Omani businessmen to find out their attitude towards the GCC Customs Union, and in order to discover to what extent the official point of view differed from that of the private sector.

This chapter consists of eleven sections; the second is dedicated to discussing the research problem. The third examines the research questions and the fourth investigates the research objectives, while the fifth introduces the research design. The sixth section discusses the sampling technique, which includes a sampling design and sampling technique.

The seven section reviews a profile of the questionnaire sample. Section eight investigates the validity and reliability of the research. Whereas section nine is devoted to discussing the research instruments, which include the questionnaire and interview techniques, since the researcher used both as instruments for data collection.

Section ten investigates the research limitation and difficulties. And finally, the conclusion will summarise the results of this chapter. .

5.2 Research problem:

The Sultanate of Oman - like many third world countries - suffers from a series of economic problems, such as a shortage of natural resources, dependence on one sector as the main source of national income and the limitations of the internal market, whose population barely exceeds two million three hundred thousand people, according to the 2004 census.

In addition, there is a trade balance deficit, whereby the rate of imports is higher than that of exports with the external world, and the weakness of the export sector itself, except for oil extraction. All these challenges have prompted the Sultanate of Oman and other Gulf countries to think seriously about establishing a regional bloc in order to overcome their social and economic difficulties.

The creation of a Free Trade Area in 1981 was the first step towards GCC economic integration, in which the member states agreed on the free movement of their national products and the exemption of these goods from customs tariffs.

In January 2003 Sultanate of Oman decided, with other five Gulf Cooperation Council countries, to adopt a further step in their economic integration, namely, the establishing of a customs union amongst themselves, based on the following principles (GCC Secretariat General, 2003:4):

1. A Common External Customs Tariff for products imported from outside the GCC customs union.
2. A Common Customs Law.
3. Unified customs regulations and rules applicable in all member states.
4. Unification of the internal customs, financial and administrative regulations and procedures relating to importation, exportation and re-exportation in the GCC states.
5. The free movement of goods amongst the GCC States without customs or non-customs restrictions, while taking into consideration the implementation of the veterinary and agricultural quarantine regulations and the prohibited and restricted goods.
6. Treatment of the goods produced in any of the GCC States as national goods.

The question that arises is, whether the Sultanate of Oman will achieve its goals of participation in this customs union and whether its membership therein will help it overcome several economic problems in its trade relations with the GCC countries, such as the chronic deficit in its trade balance with some GCC members, especially the United Arab Emirates which, for a number of reasons, prefer the difference in customs tariffs between the GCC member states and in the regulations and rules applicable to the participant countries.

However, the regional integration approaches which were presented in the previous chapters stress the role of the elites in the integration process, and they link the success or failure of any economic integration with these elite's political and economic

respondents to the economic integration. And how these elites interact with regional integration steps determined to great extent the future of any regional integration entity.

Therefore, the researcher through a adopting a questionnaire technique with the business community in Oman, and focus group interviews with Omani senior officials aims to find out the attitude of these two relevant elites from this regional integration process, because these elites could be viewed as 'expert witnesses', as well as being in many ways the very agents of success or failure in integration.

Not only would this be an important area in its own right, but these perceptions might also offer some indications of possible substantive dynamics at work – since, after all, these elites could be viewed as 'expert witnesses', as well as being in many ways the very agents of success or failure in integration.

For that reason, exploring the perception of these elites was very essential and used in this study as a methodology in order to attain indicators which may help to predict the effects of this integration on the Omani economy. In addition, to get answers for these research questions and research objectives which cover several issues about the GCC customs union which will be introduced in the next two sections.

5.3 Research Questions

This research as was explained in chapter one aims to examine five main questions: every question was covered by several subordinate questions, in the survey that was conducted with the Omani businessmen, as follows:

First Question: Do Omani businessmen have a reasonable level of awareness about the economic integration process amongst the GCC countries? And are they properly aware of the dimensions of the economic integration process?

Questions 1 to 7 of the questionnaire were formulated to investigate this Question.

Second Question: According to the opinions and perceptions of the of the Omani businessmen, will the establishment of the customs union contribute to increasing intra-



trade amongst the GCC countries, and will it help to expand the volume of exports and imports amongst the participant countries?

Questions 8 to 15 of the questionnaire were formulated to investigate this Question.

Third Question: According to the opinions and perceptions of the of the Omani businessmen, will the setting up of the customs union have positive effects on the Omani economy and will it help to put an end to the two major problems which the Sultanate of Oman has experienced for a long time in its trade relations with neighbouring GCC countries:

-First, the chronic deficit in its trade balance with some GCC countries, from whom many Omanis prefer to import and purchase their goods, especially from Dubai.

-Second, the abandonment of some Omani businessmen of importing and exporting their goods directly through Omani ports and their preference to import their goods indirectly through neighbouring countries' ports.

Questions 16 to 21 of this questionnaire were formulated to investigate this question.

Fourth Question: Do the Omani businessmen believe that the establishment of the customs union will contribute to increasing the volume of Omani exports as a result of removing tariff and non-tariff impediments facing these products before the establishment of the CU?

Questions 22 to 31 have been devised to investigate this Question.

Fifth Question: From the Omani businessmen point view, will the adopting of further economic integration steps, such as the GCC common market and monetary union, enable the GCC countries to overcome their economic problems and achieve economic integration benefits?

Questions 32 to 35 of the questionnaire are designed to investigate this Question.

5.4 Research Objectives

The objectives of this research may be designated as follows:

- 1- The research aims to find out the opinion of the Omani business elite whether the formation of the customs union will improve intra-trade between the GCC countries.
- 2- To discover the best steps, according to the Omani businessmen, that participant countries should follow in order to create a successful regional integration system comparable to the European Union.
- 3- The research also, aims to find the opinions of the Omani businessmen regarding whether the Sultanate of Oman, through its membership of the GCC customs union, will be able to overcome the chronic problems in its trade relationship with GCC countries, such as the trade balance deficit and intensive importing through some GCC ports rather than the local ones.
- 4- The research aims to examine, through the opinions of Omani businessmen, whether the establishment of the customs union will help to put an end to the obstacles that are encountered in intra-trade between the GCC countries.
- 5- The research seeks to investigate, through the opinions and perceptions of the Omani businessmen, to what extent the similarity of national products is regarded as an obstacle in developing intra-trade amongst the GCC countries.
- 6- It also tries to determine, according to the perception of the Omani business elite, the reasons behind Omani businessmen preferring to import from neighbouring countries and why they prefer to import goods indirectly through neighbouring countries rather than through domestic ports?

- 7- The research will examine, according to the perception of the Omani business elite, whether the establishment of the GCC customs union will contribute in eliminating the tariff and non-tariff obstacles which are facing Omani exports?
- 8- Do Omani businessmen advocate adopting further integration steps among the GCC countries, and to what extent will such steps be in their interests?

5.5 Research Design

Several measures were adopted in designing this survey which combines quantitative and qualitative techniques.

In designing this survey, the researcher prepared the questions under Professor Rodney Wilson's supervision, in order to ensure that the questionnaire would cover the entire research problem and its questions would be helpful in answering all the study questions. In addition, the researcher partly benefited from the questionnaire prepared by Adel Abdullah, which was about the problem of non-tariff barriers that applied to the imported plastic and chemical industries in GCC countries. However, the following subsections examine these steps in detail:

5.5.1 Sampling Design:

Sampling design plays a major role in determining the accuracy and the level of reliability of the survey findings. In fact the survey results, to a great extent, depend on procedures that the researcher followed to design his research sampling and the instruments that he used for data collection.

Sekaran defines sampling as "a process of selecting a sufficient number of items from the population so that by studying the sample, and understanding the probabilities or the characteristics of the sample subjects, we will be able to generalize the proprieties or characteristics to the population elements" (Sekaran, 1984:180). Comparable with the Sekaran's definition, Jankowicz believes that sampling can be defined as the deliberate choice of a number of people, the sample, who are to provide you with data from which

you will draw results and conclusions about some larger group, the population, whom these people represent (Jankowicz, 1992: 142). It should also be noted that from some researchers' point of view, like Saunders et al (2003) it should not be assumed that a census survey would necessarily provide more useful results than a well-planned sample survey.

In fact, sampling provides a valid alternative to a census under some conditions especially, when:

- 1- Advice of a minimum number of 30 for statistical analysis provides a useful rule. It would be impracticable for you to survey the entire population.
- 2- The limitations of budget prevent the researcher from surveying the entire population.
- 3- Also, the time constraints prevent the researcher from surveying the entire population.
- 4- Sampling enables the researcher to obtain quick results.

The Economist's (1997) advice of a minimum number of 30 for statistical analysis provides a useful rule of thumb for the smallest number in each category within your overall sample (ibid: 155).

Jankowicz stresses the preceding idea and contends that "the accuracy of your results will depend much more on the variety of different groups and subgroups in your population, and how much time and effort you can afford to spend rather than size" (Jankowicz, 1992: 146).

5.6 Sampling Technique

In social science research methodology, there are two major ways in which the researcher can draw a sample: by probability and by non-probability. In probability sampling, the elements in the population have some known chance or probability of being selected as sample subjects. Whereas, in non-probability sampling, the elements do not have a known or predetermined chance of being selected as subjects (Sekaran, 1984).

Each of these two major sampling designs has several sampling techniques, depending on the extent of generalizability, desire, the availability of time, and other resources, in addition to the purpose for which the survey is done:

5.6.1 Probability Sampling

The main feature of the probability sample is that every one in the entire population, to which a generalization is being made, must have a known probability of appearing in the sample, before considering several kinds of probability sampling procedures (Blalock, 1970). This type of sampling includes three sampling techniques, as follows:

1-Simple random sampling:

This strategy implies a straightforward sampling frame of all the people in the researcher population (whether this is an organization, department or section), not classified in any other way (Jankowicz, 1992: 146).

Sekaran thinks that in a simple random sample every element in the population has a known and equal chance of being chosen as a subject. For example, if there are 1000 elements in the population, and we need a sample of 100, we know that each one of those elements has a 100/1000 chance of being drawn (Sekaran, 1984).

2- Stratified random sampling

Stratified sampling is used mostly to ensure that different groups of the population are adequately represented in the sample, therefore that the level of the accuracy in estimating parameters is increased (Nachmias et al, 1982). This approach implies taking a random sample from identifiable groups (strata) that are homogeneous for the desired characteristics, such as people living in geographical area or belonging to organizations or institutions (Black, 1999).

According to Sekaran, in stratified random sampling, the population is first divided into mutually exclusive groups that are relevant, appropriate, and meaningful in the context of the research (Sekaran, 1984).

3 -Cluster Sampling:

This technique sometimes is known as 'multistage sampling'. "It is large survey studies rarely make use of simple, systematic, or stratified random samples because of the enormous expense associated with them; instead, they make use of the cluster sampling. A researcher arrives at the set of sampling units to be included in the sample by first sampling larger groupings, called clusters." (Nachmias and Nachmias, 1982: 305):

The cluster technique has three major stages: (Saunders et al, 2003: 167).

- 1- Choose the cluster groupings for your sampling frame.
- 2- Number each of the clusters with a unique number. The first cluster is numbered 0, the second 1 and so on.
- 3- Select your sample using some form of random sampling

5.6.2 Non-probability Sampling:

This type of sampling design consists of four different strategies, each one of them has its technique and uses its method as follows (See: Jankowicz, 1992: 142-3):

1. Accidental Sampling:

Involves the choice of a sample from the population whose views the researcher wants to discover, on the basis of convenience only: such as, you can gain access to them because you can not obtain the funds.

According to Nachmias and Nachmias, the convenience sample is obtained when the researcher selects whatever sampling units are conveniently available. For instance, a researcher may take the first 200 people she or he meets on the street who are willing to be interviewed. Also, a college lecturer may choose students in his class, and so on (Nachmias et al, 1982).

2. Purposive Sampling:

Purposive sampling involves selecting people whose views are related to an issue because you make a judgment, and/or your collaborators persuade you that their views are particularly worth obtaining and typify important varieties of viewpoint.

Sekaran thinks that, it might sometimes become necessary to get information from a specific target - that is, specific types of people who will be able to provide the researcher with the desired information, either because they are the only ones who can give the needed information, or because they conform to some criteria set by the researcher. (Sekaran, 1984).

Purposive sampling can be conducted by several arrangements: (Jankowicz, 1992: 143):

- 1- By the key informant technique, where the people are selected who have specialized knowledge about the issue in question.
- 2- Taking slices through organizations, selecting people because of the position they occupy in the organization. The researcher might choose a

vertical chain of command from chief executive down to first-line manager, working within one or more business functions.

- 3- By 'snowball sampling' new respondents are selected after the recommendation of people to whom the researcher has already put his questions; as the researcher proceeds, the number of respondents grows like a snow ball.

3. Quota sampling:

Quota sampling involves a choice of respondents who represent diversity in the population, in the same proportions as the diversity itself. The researcher needs to know what this diversity looks like before starting. (Jankowicz, 1992: 143).

The major aim of quota sampling is the selection of a sample that is as closely as possible a replica of the population. For instance, if it is known that the population has equal numbers of Catholics and Protestants, the researcher should chooses an equal number of the two groups in the sample (Nachmias and Nachmias, 1982).

The purposive sampling technique was adopted in this research design as an instrument for data collection, and in order to carry out this process, several steps were taken by the researcher to ensure the selection of representative sampling, characterized by reliability and validity, far from any bias or objectivity. These steps were as follows:

Firstly, the researcher tried, at the beginning, to specify the number and character of respondents who were required for the study in order to determine later the size of the sample. Therefore, the researcher contacted some officials in relevant institutions, such as Dr Abd Al-Kareem Al-Mughairy, the director general in Ministry of Labour Power, Mr Abdulla Al-Shubli from the Ministry of Commerce and Industries, and Mr Jamal Al-Maimani, an Economic researcher in the Chamber of Commerce and Industry in the Sultanate of Oman, in order to find out if there were any statistics available about the number of the people who were registered as businessmen. But the response in all these

institutions was: no records were available about the number of businessmen in the Sultanate of Oman.

The Chamber of Commerce and Industry informed the researcher that there were statistics about the number of firms and companies that were registered in the Chamber of Commerce. There were about 111,827 firms, according to the 2003 annual report (Chamber of Commerce and Industry, 2003). About 88,799 firms, 80% of all those registered belong to the lowest category, which mostly includes very small shops, service workshops and other similar service activities (ibid).

Secondly, the researcher tried, while designing the research sampling, to select educated businessmen who had the ability to response to the questions and who were relatively interested in the economic integration process among the GCC countries and to avoid illiterate businessmen - as much as he could - who could not respond to the survey questions. This step was crucial for more than one reason: First of all, because of the high percentage of illiteracy among the Omani people, which is reflected directly in the high percentage of illiterates in the society of the study. According to the last census, which was conducted in 2003, about 58.8% of Omani people belong to the elementary school level or less (Ministry of National Economy, 2004).

This situation prompted the researcher to look for educated people for his research sampling, who were able to understand the nature of economic integration among the Gulf Co-operation Council countries and were aware of the nature and implications of the customs union, which the member states decided to establish; as well as to avoid people with a low level of education whose culture would prevent them from realising the aims of the research and its breadth.

Furthermore, the researcher while designing his survey sample, tried - as far as possible - to ensure that all the elements of the independent variables were strongly represented in the collected sample. For instance, when he observed that the number of businessmen from industry would be very small according to the random sample, he decided there and then to go to the Al-Rusail Industrial Region in order to ensure a reasonable number of representatives for this group, and to tackle any shortage of industrial businessmen to

ensure a suitable representation of their point of view about economic integration, especially if it was known that there were several questions in the survey about obstacles facing the export and import of industrial goods between the GCC countries.

5.7 Profile of the Questionnaire Sample

During the period from November 2004 to March 2005 the researcher conducted his survey with businessmen in the Sultanate of Oman in order to find out their attitudes towards the GCC Customs Union, which was created in 2003.

The subjects for the research were Omani businessmen. The researcher chose 400 as a sample for this study. He distributed 400 questionnaires for the particular sample, 200 of which were collected, while thirty-seven were eliminated as invalid after editing the collected questionnaire.

Table 5.1 Distributed Questionnaires

Distributed	Collected	Valid	Invalid
400	200	163	37

The collected sample consisted of 81 businessmen belonging to the trade sector, About 49.7% of the whole sampled (40 businessmen) belonged to the industrial sector, i.e. about 24.5% of the sample, whereas the services sector was represented by 42 businessmen, accounting for about 25.8% of the collected sample, as can be seen in the table below.

Table 5.2 Business activity

Business activity	Frequency	Percent
Trade	81	49.7
Industry	40	24.5

Services	42	25.8
Total	163	100.0

5.8 Validity and Reliability

5.8.1 Validity

The survey should be examined to ensure its validity before distributing it, and to make certain that it covers all the research questions, and to ensure that the survey questions are sufficiently clear to the respondents.

Bell, thinks that validity “tells us whether an item measures or describes what it is supposed to measure or describe” (Bell, 1993: 65).

Validity is concerned with whether the findings are really about what they appear to be about. In other words, is the relationship between two variables a causal relationship” (Saunders& Lewis & Thornhill, 2003).

There are several factors that may affect the validity of the questionnaire. According to Saunders& Lewis& Thornhill, there are a number of threats to validity, which may effect the findings and results. These are (Ibid: 102):

History:

You may decide to study the opinions that employees have about job security in a particular organisation. However, if the research is conducted shortly after a major redundancy programme this may well have a dramatic and quite misleading effect on the findings (unless, of course, the specific objective of the research was to find out about post-redundancy opinions).

Testing:

Your research may include measuring how long it takes telesales operators to deal with customer inquiries. If the operators believe that the results of the research may disadvantage them in some way, then this is likely to affect the results.

Instrumentation:

In the above example, the telesales operators may have received an instruction that they were to take every opportunity to sell new policies between the times the first batch and the second batch of operators were tested. Consequently, the calls are likely to last longer.

Mortality:

This refers to participants dropping out of studies. This was a major problem for one of our students, who was studying the effects on the management style of managers exposed to a year-long management development programme.

Maturation:

In the earlier management-development example above it could be that other events happening during the year had an effect on their management style.

Ambiguity about causal direction

This is a particularly difficult issue. For instance, one of the part-time students was studying the effectiveness of performance appraisal in her organisation. One of her findings was that the poor performance ratings of employees were associated with a negative attitude towards appraisal among those same employees. What she was not clear about was whether the poor performance ratings were causing the negative attitude to appraisal or whether the negative attitude to appraisal was causing the poor performance ratings. (Saunders & Lewis & Thornhill, 2003:102).

However, Nachmias and Nachmias distinguish between three kinds of validities: each of which is concerned with a different aspect of the measurement situation:

Content validity, which consists of two types of validity: face validity, which rests on the investigators' subjective evaluation as to the validity of a measuring instrument; and sampling validity which concerns whether a given population of situations or behaviour is adequately sampled by the measuring instrument in question (Nachmias and Nachmias, 1982).

In order to ensure the validity of the questionnaire that was prepared by the researcher for the purposes of this study, and its validity to cover the research questions, the researcher, after obtaining approval from his supervisor, Professor Rodney Wilson, showed the questionnaire to a group of specialists, comprising academics and professionals in economics and trade in the Sultanate of Oman, such as Dr Hamad Hashem Al-Thahab the Director General of Industry in Ministry of Trade and Industry, who suggested I add "Low price of production inputs and services" to question number 28, as a reason for the lower price of some products in some GCC countries.

Also, this research was shown to Dr Salem Al-Ghanboosi from Sultan Qaboos University and Dr Qasim Ja'afar from the Higher Technical College, who provided me with their positive comments.

5.8.1.1 Piloting the Questionnaire:

All data-collection instruments should be piloted in order to know how long it takes respondents to complete them, to check that all questions and instructions are clear and to enable the researcher to remove any items which do not yield usable data (Bell, 1993).

After ensuring the validity of the questionnaire, a pilot study was very important before starting the survey in order to evaluate it practically. The questionnaire was tested on

eight Omani businessmen in order to find out whether there were some ambiguous questions or unclear expressions. As a result of this pre-testing and by suggestion from a respondent, alterations was made to question 2 which was about the capital of the firm, to fit in with the classification of firms that was used by the Oman Chamber of Commerce and Industry.

Also, small corrections were made to questions 16 and 20 by adding “All the above” as a choice, after the researcher observed that some respondents were puzzled and spent a long time before answering them. According to some respondents - it is difficult to refer these two phenomena to one reason or factor, and they thought that in question number 16 all these reasons mentioned in the questionnaire were strong factors for Omani businessmen preferring to import from neighbouring GCC countries.

Also, the same correction was made to question number 20, which was about the reasons for some Omani businessmen preferring to import their goods indirectly through neighbouring countries' ports rather than through domestic ones.

5.8.2 Reliability

Reliability is a very important process in research designing; this step aims to measure the level of the constancy of the responses that are found from the survey process.

Bell defines reliability as “the extent to which a test or procedure produces similar results under constant condition on all occasions”. He added: “A factual question which may produce one type of answer on one occasion but a different answer on another is equally unreliable” (Bell, 1993: 64).

There are numbers of devices for checking reliability in scales and tests, such as test-retest (administering the same test some time after the first), the alternate forms method (where equivalent versions of the same time are given and results correlated) or split-half method (where the times in the test are split into two matched halves and scores then correlated).

According to (Saunders, et al, 2003) reliability can be assessed by posing the following three questions:

- 1- Will the measures yield the same results on different occasions?
- 2- Will similar observations be reached by other observers?
- 3- Is there transparency in how sense was made from the raw data?

By measuring the questionnaire's reliability through using the Reliability Statistics in the SPSS program to find out the responses' reliability, the result was 0.781 according to Cronbach's Alpha scale. This grade of reliability means that the collected responses have a good relatively level and the findings have a good level of constancy.

Table: 5.3 Reliability Measurement

Cronbach's Alpha	N of Items
0.781	39

Table: 5.4 Item-Total Statistics

Items	Cronbach's Alpha if Item Deleted
Business activity	0.785
Capital of the firm	0.780
Educational Level	0.783
Business Experience	0.782
GCC Location	0.789
Current General Secretariat	0.785

More Cooperation field achieved	0.792
Move to CU	0.788
GCC Business visit	0.784
GCC Effects on Oman Exports	0.782
Most Important Step towards Integration	0.778
GCC Intra trade Impediments	0.780
Difference in Impediments	0.779
Less Trade Impediments	0.780
Most Serious Trade Impediments	0.794
CU eliminating Impediments	0.781
CU Increase Intra Trade	0.772
GCC National Products Similarity	0.784
Role of CU Principles in Developing Intra Trade	0.775
Factors of Import from GCC	0.760
Tourism Factor	0.766
Formalities Difference in Omani Ports	0.766
Common Tariff remove Price differences	0.765
Reasons of Importing through GCC Ports	0.760
Common Customs Law Role	0.766
Omani Exports impediments	0.764
Obstacles affect Omani Exports	0.768
CU will increase Omani Exports to GCC	0.786
GCC Products Competitor to Omani Products	0.781

Protection for local Industries	0.785
GCC products most competitive in Oman	0.787
Factors behind Low Price	0.783
Factors Limit Omani exports to GCC	0.793
GCC Similar products	0.785
Common Industrial Policy	0.784
Economic Integration Speed	0.786
GCC Monetary Union	0.786
GCC Common Market	0.783
Enlargement of GCC market Size	0.785

5.9 Research Instruments

The results and findings of any field study are highly dependent on research techniques and the instruments that are used to investigate a particular issue or specific phenomenon. Every issue or phenomenon, regardless of its political, economic or social nature, has its limitations and particular situations and conditions. Therefore, the first question that comes to the mind of the researcher is, what is the most appropriate instrument for collecting the data of his research.

Social science researchers usually distinguish between three techniques of primary data collection:

- 1- Questionnaire.
- 2- Interview.
- 3- Observation.

In this research, the researcher used two types of techniques as instruments for data collection: the questionnaire and the interview. These two techniques are adopted in this study to investigate the research problem and to answer the research questions. Any instrument has its advantages and disadvantages.

However, the researcher - as Rubhy said - should decide the appropriate instrument he will use according to the circumstances surrounding the field study, such as:

The nature of the research and to what extent the data collection instrument fit in with it.

- 1- The nature of the society and sampling of the study.
- 2- The researcher's circumstances, his financial situation and the time available to him.
- 3- The researcher's knowledge about the research instrument (Rubhy, 1998).

5.9.1 Questionnaire Technique

Sekaran defines the questionnaire as "a pre-formulated written set of questions to which respondents record their answers, usually within rather closely defined alternative"(Sekaran, 1984).

There are several issues that the researcher should avoid in order to ensure objectivity for his research and keep away from any biased attitudes (Sekaran, 1984:150-2):

- 1- Double-Barreled Questions: the researcher should avoid a question that lends it self to different possible answers to its subparts. This is called a double-barreled question. For instance, the question "Do you think there is a good market for the product and that it will sell well?" Such a question could bring a "yes" answer to the first part of the question and a "no" response to the latter part of the question.

- 2- Ambiguous Questions: the question should be clear enough to the respondent and the researcher should formulate his questions to reflect the exact meaning that he aims to discover.
- 3- Recall-Dependent Questions: Some questions might require respondents to recall experiences from the past that are hazy in their memory. Responses to such questions might have bias.
- 4- Leading Questions: The researcher should avoid questions that are formulated in a way that they lead the respondent to give the responses that the researcher would like to elicit.
- 5- Loaded Questions: Another type of bias in questions occurs when they are formulated in an emotionally-charged manner. An instance of such a loaded question is "To what extent do you think abortion is the same as killing a living human being?" Abortion is a highly controversial issue in the USA and introducing the question in this emotional manner will affect the respondent's attitude.
- 6- Social Desirability: The researcher should not formulate the questions in such a manner that they elicit socially-desirable responses. For example, a question such as "Do you think that old people should be abandoned?" Such question would elicit a response of "no".
- 7- Length of Questions: Finally, short, simple questions are preferable to long ones. A statement or a question in the questionnaire, according to – Horst's point of view - should not exceed 20 words or exceed one full line in print (Sekaran, 1984: 152).

The researcher tried to avoid all the pitfalls mentioned above and he did his best to be strict with the above conditions in order to ensure unbiased results and to steer clear of

eliciting any responses or emotional attitudes which might affect the validity and reliability of this survey.

However, Barker determines several rules of questionnaire construction that the researcher should consider while designing his questionnaire (Barker, 1994):

- 1- The researcher should include only questions which will address his research concerns and which he plan to analyze.
- 2- The questionnaire should be formulated as appealingly as possible for the respondents.
- 3- The questionnaire should be as short as will suffice to elicit the information necessary to analyze the primary research concerns. The researcher should be sure to include questions on all aspects of the research problem that will be needed to address.
- 4- If the questionnaire is self-administered, keep the instructions brief, but make sure they contain all the information required to complete and send back the questionnaire.
- 5- The researcher should consider in advance all the issues that a respondent might raise when he or she receives this instrument.

In fact, the questionnaire is the most popular instrument for conducting a survey, and it is preferred by a wide range of researchers because of the advantages yielded by this technique.

For instance, the questionnaire provides a useful method of obtaining information in a structured format. Moreover, it can be managed without the direct support of an interviewer. Furthermore, the design process assists in identifying the associated analysis stages (question responses are usually sought in a particular format to facilitate the pre-determined analysis techniques). (Wilson and McClean, 1994).

However, in spite of these advantages, the questionnaire method has several disadvantages which the researcher should be careful about: First of all, this method requires a lot of time to design and develop. Moreover, it limits the scope of the questioning syndrome. In addition, this method suffers from the form filling syndrome, especially if it is administered via post. Finally, this instrument is characterized by a limited flexibility in terms of response format (Ibid).

There are several instruments to deliver the questionnaire to the recipients; each has its advantages and disadvantages (See Saunders, Lewis and Thornhill, 2003) and (Rubhy, 1998):

- 1- On-line questionnaire: this instrument can be conducted via email or via a website. A response according to this instrument depends on the recipient being motivated to reply to the questionnaire and to send it back. However, in spite of the advantages that can be obtained, such as saving time and low cost; this instrument will be confined to those with an internet service. Also, the rate of response may not be high enough. (Rubhy, 1998).
- 2- Postal Questionnaire: this instrument is characterized by its ability to cover extensive and far-flung regions with large populations. It is also low cost and requires little effort. In addition, it allows the respondents to answer the questionnaire in their spare time isolated from any researcher effects. The shortcoming of this instrument is the low percentage of responses, as well as the absence of an opportunity for the respondents to seek clarification of ambiguous questions.
- 3- Telephone Questionnaire: the quality of data which is collected via this instrument is highly dependent on the researcher's competence to conduct interviews. This instrument is characterized by its ease of use and it enables the researcher to interview people in different parts of the world. But it is very expensive to use and it requires the respondent to be available at a specific time, as well as access to telecommunication devices by both parties.

- 4- Personally administered questionnaire: this instrument enables the researcher to explain the purpose of the survey to the respondent and in some cases the questionnaire can be completed on the spot (Bell, 1993). Moreover, this instrument enables the researcher to collect all the distributed questionnaires and clarify any unclear questions to the respondents.

On the other hand, the drawback of this instrument is that the interviewee's attitude may be affected by the presence of the researcher.

5.9.1.1 Procedures Used to Reach the Respondents

The first question that came to the researcher's mind after finishing preparing the questionnaire was how he could contact the businessmen, especially if it was known that he belonged to a lower class than that group, as did his friends and relatives.

The first step that had to be taken - in order to legitimise the survey in the Sultanate of Oman - was to obtain the approval of the Ministry of Higher Education, the researcher's scholarship sponsor.

Such a step was very important to ensure the collaboration of official and non-official institutions. Moreover, it was very important to make certain of the co-operation of the respondents, who might feel uncomfortable or hesitant about the aims of the research, especially - as mentioned above - because these people were not familiar with the survey culture, particularly when the survey related to political and economic issues.

After obtaining the endorsement of the Ministry of Higher Education, the researcher went to the Ministry of Commerce and Industry, in order to facilitate his task with the businessmen, but the officials in this Ministry directed the researcher to the Chamber of the Commerce and Industry, which could ensure a better contact with the businessmen.

In the Economic Research Department of the Chamber of Commerce and Industry, the researcher met some fellow researchers and questioned them about the best way to contact the businessmen. The answer given was that the only way was to distribute questionnaires via fax.

This instrument is not a suitable means for this research, because such questionnaires are usually filled in by non-Omani employees, whereas the aim of the research is to find out the Omani businessmen's views not those of other nationalities.

As a result, the researcher decided to adopt the following instruments in order to collect data from the Omani businessmen:

- 1- Via direct contact with them in their companies and offices.
- 2- Through the Muscat Stock Market, where many of them attend daily to buy and sell shares.
- 3- Through field visits to the factories and firms in the Rusail Industrial Region.
- 4- Through the head of committees' section of the Chamber of Commerce and Industry, who wrote official letters accompanied by questionnaires to the members of the committees.
- 5- Finally, through Customs departments in Sultan Qaboos Port and Seeb International Airport, where the researcher worked in the Sultanate of Oman.

These five means were the only ways available to ensure direct contact with the businessmen and to ascertain their views about the customs union between the GCC Countries.

5.9.1.2 Preparing the Data for Computer

Analysis:

After the data collection had finished, the researcher started taking the necessary steps towards the data-entering process. The first step was contacting people who had knowledge and experience in dealing with the Stoical Package for Social Science (SPSS) system so as to exchange views with them about the best means to codify the collected data and analyze the results later.

As a result, the researcher started to allocate a code for every question and its choices. In addition, a special coding was devised for the missing data or spoiled responses.

A descriptive statistics analysis was used to interpret the findings and the results according to the quantitative analyses that are provided by the SPSS Version 12 system.

5.9.2 The Interview Technique

The interview is one of the most important instruments of data collection. Its use can help the researcher to gather valid and reliable data related to the research questions and objectives. Kahn and Cannell define an interview as “a purposeful discussion between two or more people” (Saunders et al, 2003:245).

Moser and Kalton describe the survey interview as “a conversation between interviewer and respondent with the purpose of eliciting certain information from the respondent” (Bell, 1993:90).

Adaptability is a major advantage of the interview. A skilful interviewer can follow up ideas, probe responses and investigate motives and feelings, which can never be done by questionnaire. The way in which a response is made (the tone of voice, facial expression, hesitation, etc.) can provide information that a written response would conceal. Questionnaire responses have to be taken at face value, but a response in an interview can be clarified and developed (Ibid).

5.9.2.1 Types of Interview

Social science researchers distinguish between two major types of interview: unstructured and structured, and each form of this instrument has its technique and its advantages and disadvantages:

5.9.2.1.1 Structured Interview:

Structured interviews are “those conducted by the interviewer when he knows exactly what information is needed and has a predetermining list of questions that will be posed to the respondents” (Sekaran, 1984:204).

In a similar definition to the preceding one,, Nachmias defines the scheduled-structure interview in which the questions, their wording and their sequence are fixed and are the same for every respondent. This type of structural interview is used to ensure that when variations appear between responses, they can be attributed to the actual differences between the respondents and not to variations in the interview (Nachmias and Nachmias, 1982).

Nachmias believes that the schedule-structured interview is based on three important assumptions:

- 1- That for any research objective “the respondents have a sufficiently common vocabulary so that it is possible to formulate questions which have the same meaning for each of them”.
- 2- That it is possible to phrase all questions in a form that is equally meaningful to each respondent.
- 3- That if the “meaning of each question is to be identical for each respondent, its context must be identical and, since all preceding questions constitute part of the contexts, the sequence of the questions must be identical” (Nachmias and Nachmias, 1982:189).

5.9.2.1.2 Unstructured Interview:

The unstructured interview is thus called because the interviewer does not enter the interview setting with a planned sequence of questions that he will be asking the respondent (Sekaran, 1984:136).

In other words, this technique involves the researcher in asking questions whose content and sequence are not specified in advance. The researcher would use them in situations in which he has a clear idea of his purpose, a general idea of the kinds of content which the researcher wishes to explore, and a rough notion of the sequence in which the researcher will do so. The researcher will allow both the content and the sequence to vary with different respondents, in order to be sensitive to the way in which the researcher's interaction with particular individuals is progressing (Jankowicz, 1992).

The unstructured interview also contains open-ended questions where the researcher uses a form of questioning in which the respondents are encouraged to answer in their own words (*Ibid*).

According to Jankowicz, the unstructured interview consists of four types of interview: the conversation interview, the individual interview, the key informant interview and the focus group. For the purposes of this study the researcher will use the focus group interview technique in addition to the questionnaire instrument.

5.9.2.1.3 Focus Group technique:

The focus group interview, which is sometimes known as the group depth interview, is a "form of group interview in which the data arise from dialogue and general discussion among participants, rather than from a dialogue between yourself as investigator and a single person as respondent"(Jankowicz, 1992:197).

According to Baker, the focus group consists of a small number of individuals gathering in order to express their views about a specific issue in a group environment. This research instrument is usually used as a starting point for developing a survey. The researcher is able to get a better idea of how respondents talk and think about topics, which could help with the design of the survey instruments. Furthermore, the focus

group helps when a researcher needs to obtain background information on a topic. Such a group can stimulate new ideas and concepts (Baker, 1994).

It is a useful instrument for discovering the range of views and attitudes present within an organization or part of it and offers the researcher an opportunity to observe the process by which people interact, and hence to infer something of the culture and the climate of the organization, as well as providing the researcher with data about the content of people's views on the issues which the researcher is investigating (Jankowicz, 1992).

Along with Baker's point of view, a focus group interview generally consists of 6 to 12 people, selected by the researcher who have a sufficient knowledge about a specific subject because of their experience in the field of study or who can represent the views of some group of interest. The members of the group meet at a specific place (Baker, 1994).

However, the focus group interview technique was used in this research as an additional technique with the questionnaire. The researcher arranged for a semi-structured focus group interview with some senior officials in the Sultanate of Oman belonging to Ministries associated with trade and national economic issues, and very close to the economic integration process between the GCC countries, such as the Ministry of Trade and Industry, the Ministry of National Economy, the Ministry of Finance and the Directorate General of Customs.

The aim of this interview was to examine to what extent the official view corresponded to the private sector view, which was obtained by the questionnaire used with the Omani businessmen.

5.9.2.2 Focus Group Interview with Omani Senior Officials about the Inception of the GCC Customs Union

This focus group interview with Omani senior officials was complementary to the survey that was conducted with the Omani businessmen about their attitudes towards the economic integration process among the GCC countries, in the light of the customs union which was established in 2003.

This interview was organized in the Sultanate of Oman on 24 September 2005 in the office of the Director General of Economic Relations Affairs in the Ministry of National Economy. In the attendance were the following senior officials:

- 1- Mr Hamood Al- Alawe the Director General of Economic Relations Affairs in the Ministry of National Economy.
- 2- Mr Yahya Al-Izami the Director of Non-Oil Revenues in the Ministry of Finance.
- 3- Mr Musallum Al-Farsy the Deputy Director General of Customs.
- 4- Mr Abdulla Al-Grawany the head of the GCC section in the Directorate General of Customs.
- 5- Mr Mohammad Al-Ghailani the Advisor to the Ministry of Commerce and Industry
- 6- Abdulla Al-Shebly the Director of GCC Affairs in the Ministry of Commerce and Industry.

5.9.2.3 The Focus Group Interview Analyses:

An interpretative technique will be adopted in order to analyse this focus group interview. This technique as defined by Bryman (2004:13) is "a strategy that respects

the differences between people and the objects of the national sciences and therefore requires the social scientist to grasp the subjective meaning of social action”.

In fact, this definition borrows from Weber’s view towards the social science approach and its definition. He described sociology as a “science which attempts the interpretive understanding of social action in order to arrive at a causal explanation of its course and effects” (ibid).

In this interview, the researcher tried to cover some topics that were not easily investigated by using close-ended questions, which are usually used in a questionnaire. Also, while the researcher conducted his survey with the Omani businessmen, several issues were raised that demanded official views and professional opinions. Thus, the researcher noted that it would be necessary to offer greater clarification and interpretations for some questions that were generated by the questionnaire with the Omani businessmen, which covered several issues about the economic integration process and the GCC customs union.

5.9.2.4 Focus Group Interview Difficulties

In spite of the importance of the role of the focus group technique in acquiring knowledge of critical issues, there can be no doubt about the difficulty of this type of interview, especially when such a technique is used with senior officials belonging to different Ministries in different places. However, the researcher realized later why many of his colleagues’ students always tried to avoid this kind of interview, especially if it was to be conducted with senior officials.

In fact, the researcher faced several difficulties while he was trying to organize this focus group interview. Part of the problem was that the interviewees belonged to different institutions and each was busy with his own commitments and official work, so it was not easy to gather together these senior officials at a specific time and in the same place.

What is more, because of the nature of their jobs and positions, most of the interviewees spend a lot of time outside Oman as they represent the Sultanate at many

international meetings and conferences. This forced me to delay the interview several times in order to ensure the participation of each one of these senior officials.

In addition, many interviewees tried to evade the focus group interview and suggested replacing it with an individual interview, in order to avoid any embarrassed questions or undesirable views on certain critical issues, which usually crop up in this type of focus group interview. However, in spite of these difficulties, the researcher managed to overcome these challenges and obstacles, by using his personal relationships with the interviewees, which resulted from participating in many GCC meetings and conferences as the representatives of the Sultanate of Oman.

5.10 Research Limitations and Difficulties

The researcher faced several difficulties while carrying out his survey with businessmen in the Sultanate of Oman. Outlining these difficulties may help to give the reader a clear image of the atmosphere in which this survey was conducted:

First of all, as is very common in many third world countries, this survey was conducted in a society which was not familiar with the culture of measuring public opinion, especially in subjects related to political and economic problems. Therefore, many respondents refused to answer some questions in this survey because they thought that they are related to political issues. For example, one respondent in the Muscat Stock Market after finishing reading the survey questions said out loud “Do you think you are in Hyde Park in the UK?” Whereas, another respondent said, after reading the questionnaire, “Please leave us. We like to live”. In fact, such difficulty occurred because in developing countries and societies, the civil society is not developed as such to encourage individuals to take part in such exercises.

However, these comments occurred in spite of the researcher’s efforts to formulate his questionnaire – where possible - in a way that was far from the controversial political and economic issues that touch directly on internal and regional situations, so as to ensure the success of his survey.

Secondly, the most difficult part of this survey was the fact that it was carried out with businessmen (not with other social groups) who are usually very busy and do not have much spare time. Also, most of them are controlled by a mentality that does not give anything away without a return. As a result, one of the most important lessons that the researcher learnt from his survey was that conducting a survey with businessmen is more difficult than asking for charity. For example, some businessmen whom the researcher visited several times in their companies, promised him on many occasions that they would come to collect the questionnaire, but did not.

Part of this difficulty with Omani businessmen may be attributed (in addition to their busy time-table), to the fact that the rate of the illiteracy among certain sections of those in the study was relatively high, and they could not even read the questionnaire. According to the last census organised by the government of the Sultanate of Oman in 2003, the illiteracy rate among the Omani people was 20 % of the entire population, in addition to 19.5% who could read and write up to elementary school level (Ministry of National Economy, 2004:60).

The third difficulty the researcher faced concerned the fact that the private sector in the Sultanate of Oman, like most GCC countries, is controlled and managed to a great extent by non-Omani businessmen, whereas the company or business is registered under an Omani name in the Ministry of Commerce and in the Chamber of Commerce, and the actual business belongs to the non-Omani, who usually pays a small monthly amount to his Omani sponsor.

This phenomenon occurs despite the Omani government's efforts to combat it by enacting a number of regulations to get rid of it. Consequently, when the researcher visited many companies and factories, he could not find any Omani people there.

This big difficulty led me to think seriously about contacting my supervisor to change my research title to that of "Businessmen in Oman" rather than "Omani businessmen", which would facilitate the task for me. But like such a step would have resulted in having to make several changes in the questionnaire itself, because it had some questions that were difficult for the people, who did not belong to the Gulf region, to

answer. Therefore, I decided finally to accept the challenge and go ahead with my survey as approved by my supervisor.

Fourthly, another difficulty that faced the researcher could be ascribed to the relative length of the questionnaire itself, and the number of questions that had to be answered by the businessmen. In fact, the questionnaire consisted of thirty-nine questions, of which seven were multiple-choice. The excessive number of questions did not suit the businessmen, whose time is precious and who have little time to spend on answering so many.

However, the lesson that could be learnt from this difficulty is that a survey conducted with a sample such as businessmen should be different in length and number of questions to a questionnaire prepared for teachers, customers or elderly people, for instance.

5.11 Conclusion

The research method used in this study is based on the adopting of qualitative and quantitative techniques as a means for data collection. Whereas the questionnaire was used as an instrument to discover the views of the Omani businessmen concerning the GCC Customs Union, the focus group interview was used as a technique to find out the Omani senior officials' point of view about the economic integration process, in the light of the creation of the customs union.

In this chapter the researcher tried to give a clear picture about the steps followed in his field study with businessmen in the Sultanate of Oman during the period from November 2004 to March 2005.

A pilot study was organized to ensure the validity and reliability of the questionnaire before distributing it.

A purposive sampling method was used in this research as a technique for data collection, accompanied by several measures adopted by the researcher to ensure that

the sample represented the point view of the three sectors (Trade, Industry and Services).

Focus group interviews were conducted with officials from the Sultanate of Oman in order to compare the official attitude towards the customs union with the private sector view, and in order to discover to what extent official thinking corresponded with the businessmen's understanding. Finally, in this chapter the researcher discussed several difficulties that faced him during his field study in the Sultanate of Oman and the means that he used to overcome them.

CHAPTER SIX

THE DESCRIPTIVE ANALYSIS OF THE RESEARCH FINDINGS FROM THE SURVEY OF OMANI BUSINESSMEN

6.1 Introduction:

The aim of this chapter is to investigate the attitudes and perceptions of Omani businessmen towards the customs union. This chapter deals with the results which were obtained from the questionnaires that were conducted with 163 Omani businessmen belonging to the three main sectors: trade, services and industries in the Sultanate of Oman. It also deals with the data analysis collected about the attitude of Omani businessmen and their view about the customs union which was set up between the GCC countries.

This chapter first analyses the basic personal background information about the population of the study. This includes: business activity types, the firm's capital, educational level, and length of business experience. The next section is concerned with analyzing and discussing the impression and perception of Omani businessmen towards the customs union. The chapter then moves onto an analysis of the role of the customs union in increasing intra-trade among the GCC countries. Section 6.5 discusses the impact of the customs union on the Oman economy. The following section offers an analysis of the customs union effects on Omani exports to GCC countries and the obstacles facing it. Section 6.7 analyses the probability of the GCC countries adopting further economic integration steps among the GCC countries. In the final section we introduce the focus group interview findings.

6.2 Personal Background Characteristics:

Personal background characteristics play an elemental role in determining the findings and results that are obtained from any field survey, which are supposed to reflect the attitudes and perceptions of the respondents in any research. This section is dedicated to analyzing the personal background characteristics of the whole sample in terms of the business activity type, the firm's educational level and the length of business experience of the respondents.

6.2.1 Business Activity:

Figure 6.1 shows that the majority of the sample belongs to the trade in goods category, which includes wholesale and retail businessmen. This category includes 81 businessmen, or 49.7% of the whole sample. Those that belong to the services sector, on the other hand, include activities such as transport, insurance companies, finance firms, real estate offices, legal consultation offices and telecommunication companies. They form almost half the number of the trade sector: 42 persons, or 25.8% of the sample.

The businessmen who belong to the industrial sector form the smallest percentage of the study: 40 people or 24.5% of the entire sample. This category includes the owners of the factories; most of which are located in the Al-Rusail Industrial Region in Muscat the capital of the Sultanate of Oman, which is regarded as the main centre of the industry in the country.

Figure 6.1: Business Activity

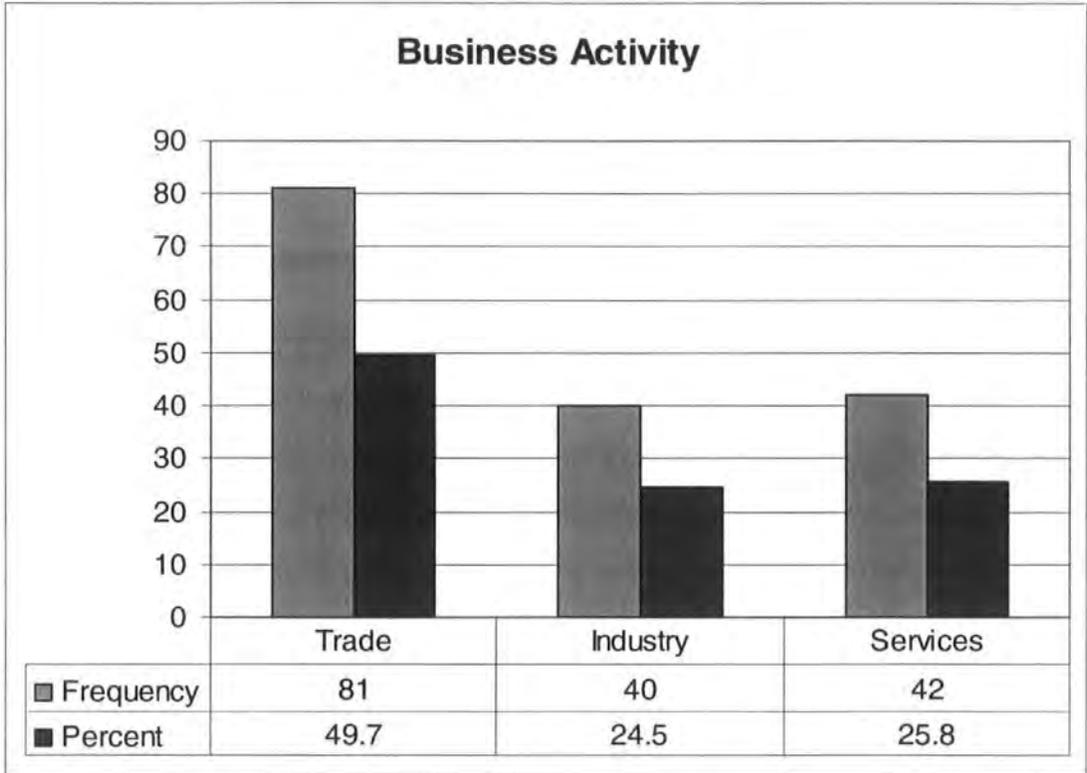
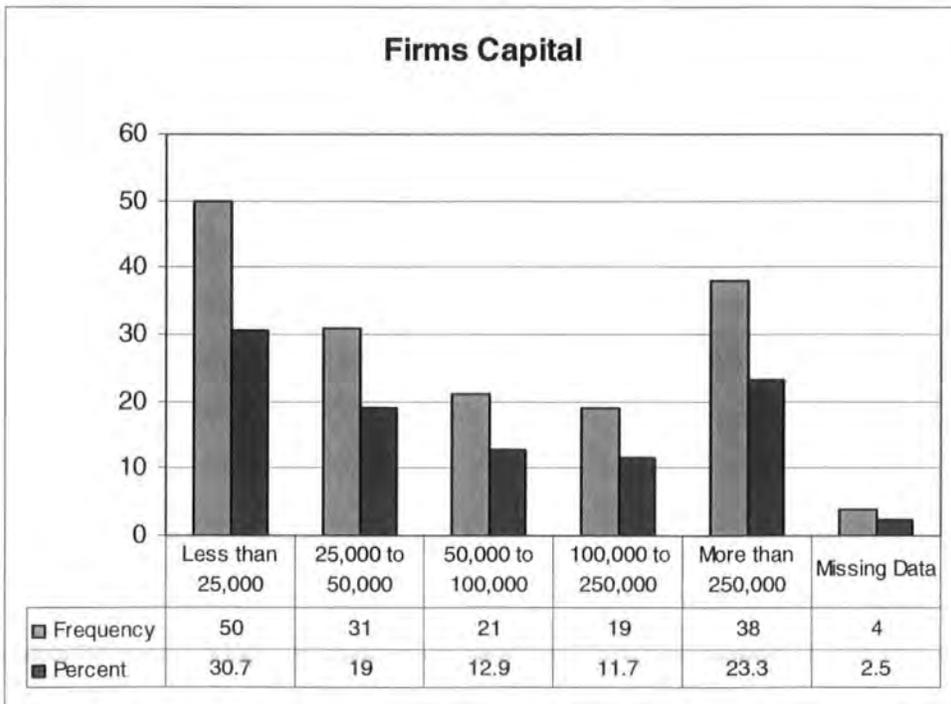


Figure 6.2: Firms Capital



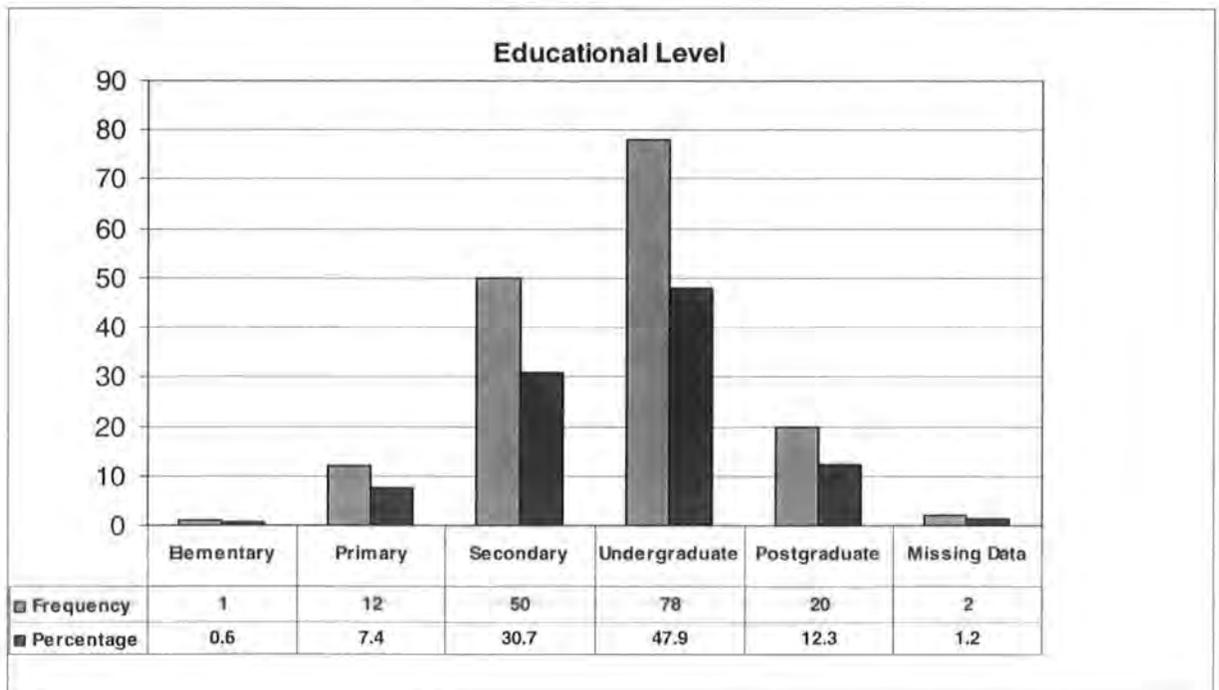
6.2.2 Firms Capital

Figure 6.2 illustrates the capital of the firms that are owned by the respondents. The majority of the respondents (30.7% of the whole sample) belong to firms whose capital is less than 25,000 OR (about US \$ 65,000). These types of firms fall within the smallest firms: fourth-class companies, according to the classification adopted by the Omani Chamber of Commerce and Industry.

The high representation of this category may reflect the ease of the interview procedures and means of communication among this type of businessmen. In addition, the dominance of this sort of firm within the Omani economy, as shown in the preceding chapter, accounts for about 80% of those registered with the Omani Chamber of Commerce and Industry.

People who belong to firms that have a capital of between 100,000 Omani Riyals and 250,000 make up the smallest proportion (11.7%) of the businessmen, whereas, firms with capital of more than 250,000 Riyals amount to 23.3% of the study respondents. 19% of the sample belong to the 25,000 to 50,000 OR category, and 12.9% are from firms with 50,000 to 100,000 OR.

Figure 6.3: Educational Level

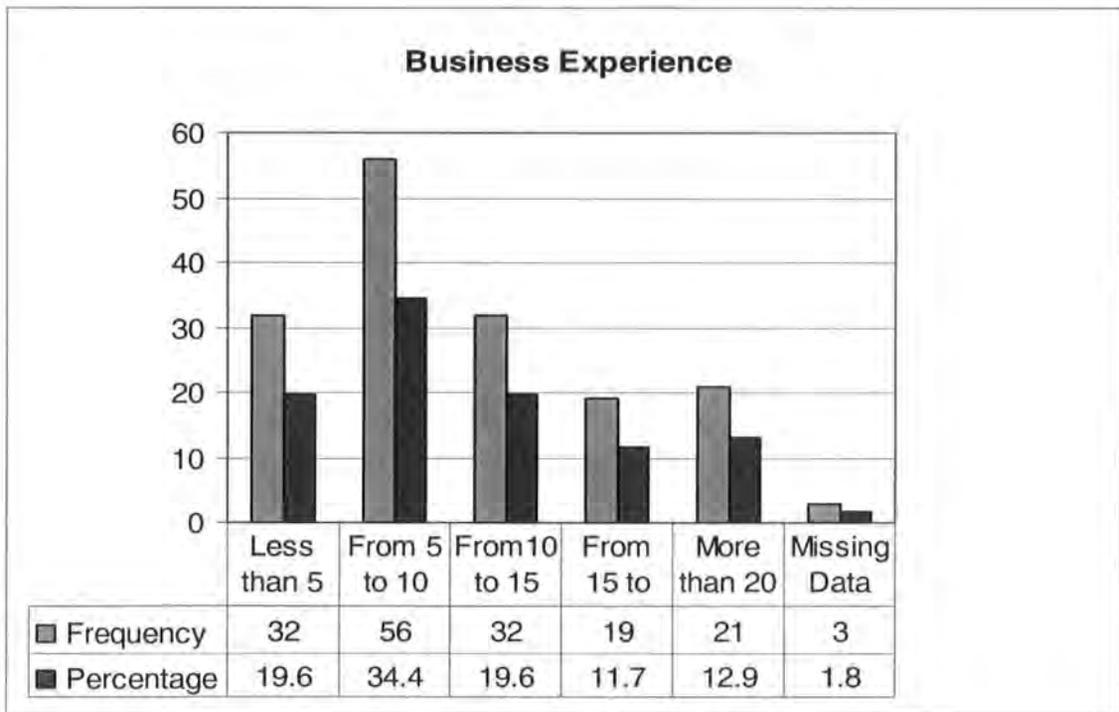


6.2.3 Educational Level

As can be seen from figure 6.3, only one businessman belongs to the elementary school category. This low figure could be attributed to the nature of the research with questions requiring a minimum degree of knowledge to answer them, and a relatively high level of education to recognise the size of the economic integration process amongst the GCC countries.

On the other hand, businessmen belonging to the undergraduate category had the highest educational level: 78 persons (47.9% of the whole sample). People who attended secondary school amounted to 50 people: 30.7% of the sample, and respondents who went to primary school made up 7.4%, whereas, post-graduates comprised 20 businessmen: about 12.3% of the sample.

Figure 6.4: Business Experience



6.2.4 Business Experience

Figure 6.4 shows that those businessmen having from 10 to 15 years experience and those with less than 5 years are equal in number: 32 for each category - about 19.6% for each group from the whole sample. Those with from 5 to 10 years' experience in business activity formed the highest group among the study sample: 56 people or 34.4% of the sample. While those with 15 to 20 years or more were the lowest: 19 or 11.7 % of the population for the former category and 12.9% for the latter.

In fact, such a relatively low number of participants belonging to these two high experience categories could be partly ascribed to the fact that Oman before 1970 was isolated, far removed from any feature or renaissance aspect of the modern life. Therefore, the real appearance of this class of businessmen came after 1970 when the current Sultan Qaboos Bin Saeed overthrew his father and became the Sultan of Oman and adopted steps to modernise and reform.

6.3 The Impression and Awareness about the Economic Integration Process:

This section aims to measure the level of awareness of Omani businessmen and their attitudes towards the economic integration process between the GCC countries. It consists of seven sub-sections, as follows:

6.3.1 GCC Location:

Table 6.1 reveals that the great majority of the respondents (73%) of the sample were able to identify the location of the General Secretariat of the GCC in Riyadh. Whereas, the proportion of businessmen who thought that Muscat and Kuwait were the location of the GCC General Secretariat was 7.4% of each category, in comparison with 4.3% for Abu Dhabi and 3.7% for Manama.

Table 6.1: GCC Location

GCC Location	Frequency	Percent
Abu Dhabi	7	4.3
Muscat	12	7.4
Riyadh	119	73.0
Manama	6	3.7
Kuwait	12	7.4
Missing Data	7	4.3
Total	163	100.0

6.3.2 Current General Secretary:

As can be seen from table 6.2, the great majority of the respondents were able to identify the current GCC General Secretary. About 84% of the population of the study identified Abd- Alrahman Al-Attaya from Qatar as the current GCC General Secretary. This result reflects a high level of awareness amongst Omani businessmen and a reasonable grasp of the integration process among the GCC countries, while, a small percentage of the sample failed to define the character of the current GCC general secretary.

Table 6.2: Current General Secretary

Current General Secretariat	Frequency	Percent
Bishara	5	3.1
Al-Kasmi	8	4.9
Al-Hujailan	6	3.7
Al-Attya	137	84.0
Non	4	2.5
Missing Data	3	1.8
Total	163	100.0

6.3.3 Most Successful Field of Cooperation

As can be seen from table 6.3, most of the respondents believe that the GCC won to achieve successful co-operation in all three fields of integration: political, economic, military and security; while 31% of the respondents believed that GCC achievements were in all the fields mentioned above. In contrast, 13.5% of the whole sample thought that GCC cooperation failed to achieve any success in any field of integration.

Economic integration occupied the second level as the most successful integration field among 25.2% of the respondents, whereas, the sample registered 14.1% for the military and security field and 12.3% for political cooperation.

Table 6.3: Most Successful Cooperation field

Most Successful Cooperation field	Frequency	Percent
Political	20	12.3
Economic	41	25.2
Military and Security	23	14.1
All the above	52	31.9
None of the above	22	13.5
Missing Data	5	3.1
Total	163	100.0

Table 6.4: Move from FTE to CU

Move From FTE to CU	Frequency	Percent
Strongly Agree	48	29.4
Agree	77	47.2
Not Sure	21	12.9
Disagree	8	4.9
Strongly Disagree	4	2.5
Missing Data	5	3.1
Total	163	100.0

6.3.4 Move from FTE to CU

Table 6.4 reveals that the great majority of Omani businessmen, about 76% of the sample, either agree or strongly agree with the point of view that the move from the free trade area towards the customs union was a good step towards a full GCC economic integration, but not quite enough, while almost 7% did not agree with this view and 12.5% were not sure.

6.3.5 Business Visit to GCC Countries:

As can be seen from table 6.5, the majority of Omani businessmen have made at least one visit to one or more GCC member countries. About 75% of the entire sample made a business visit to one or more GCC countries, leaving 25% who did not made any business visit.

Table 6.5: GCC Business visit

GCC Business visit	Frequency	Percent
Once to one country	21	12.9
Once to more than one	4	2.5
Many times to one	44	27.0
Many times to many	50	30.7
None	41	25.2
Missing Data	3	1.8
Total	163	100.0

The reason behind differentiating between a single visit and many visits to a particular country (see table 6.5.1 and table 6.5.2) was to distinguish those Omani businessmen who used to visit Dubai regularly in the past because they had a strong traditional trade relationship with the United Arab Emirates, especially Dubai, from those who visited other GCC countries whose trade relationship came about and developed as a result of the establishment of the GCC.

In any case, the number of Omani businessmen who visited the U.A.E once or more was 61, forming only about 37% of the entire sample. This means, on the other hand, that there was a high percentage of businessmen who had good contacts with all GCC members.

Table 6.5.1: Sole Destination for Business Visit

GCC Business visit Once to One	Frequency	Percent
UAE	16	76.0
Bahrain	2	10.0
Saudi Arabia	3	14.0
Total	21	100.0

Table 6.5.2: Most Popular Destinations for Multiple Business Visit

GCC Business visit many to one	Frequency	Percent
UAE	40	91.0
Qatar	1	2.2
Saudi Arabia	3	6.8
Total	44	100.0

6.3.6 Economic Effects of the GCC on Oman's Exports:

Table 6.6 shows that the majority of Omani businessmen agree or strongly agree with the idea that exports are affected positively by improvements in the economic situation of the region, as a result of higher oil prices. Over 61% of the whole sample believe this, whereas less than 14% disagree with the idea, in comparison with 22.7% of the sample who are not sure.

Table 6.6: GCC Effects on Oman Exports

GCC Effects in Oman Exports	Frequency	Percent
Strongly Agree	44	27.0
Agree	56	34.4
Not Sure	37	22.7
Disagree	18	11.0
Strongly Disagree	4	2.5
Missing Data	4	2.5
Total	163	100.0

6.3.7 Most Important Step towards Integration:

Figure: 6.5 Most Important Integration step

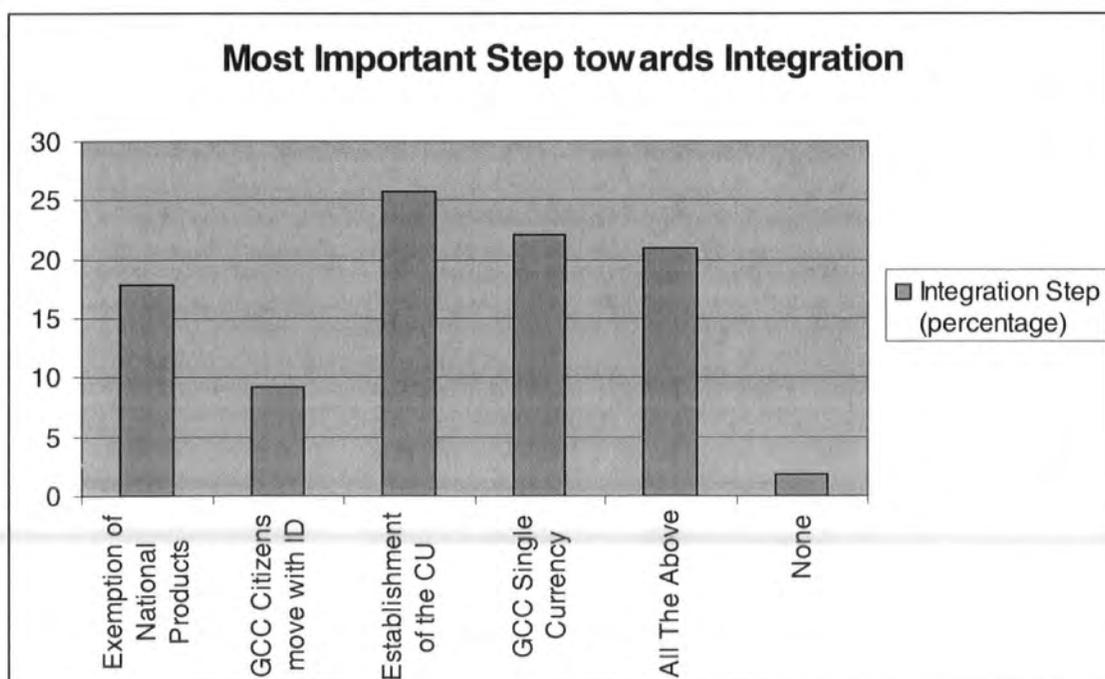


Table 6.7 shows that many Omani businessmen (25.8%) thought that the establishment of the customs union among the GCC Countries was the most important step towards economic integration among those states, whereas, 22.1% thought that the decision to adopt the GCC single currency was the most important. Another 17.8% of the sample opted for the exemption of national products from customs tariffs. A further 9.2% of Omani businessmen believed that the GCC citizens' ability to move about with an ID card only and without the need for a passport as the most important innovation taken by GCC countries.

On top of that, 20.9% of the sample considered all the changes mentioned above as very important for regional integration, in contrast to the 1.8% who maintained that none of these moves was of any help.

Table 6.7: Most Important Step towards Integration

Most Important Step towards Integration	Frequency	Percent
Exemption of National Products	29	17.8
GCC Citizens move with ID	15	9.2
Establishment of the CU	42	25.8
GCC Single Currency	36	22.1
All The Above	34	20.9
None	3	1.8
Missing Data	4	2.5
Total	163	100.0

6.4 CU Effects on GCC intra-trade:

This section is dedicated to analyzing the possibility of the customs union in increasing intra-trade among the GCC countries. It is divided into eight sub-sections, each of which reflects the attitude of Omani businessmen towards the GCC intra-trade issue.

6.4.1 GCC Intra-trade Impediments:

Table 6.8 shows that the great majority of Omani businessmen (about 84% of the sample) thought that there were still some impediments to GCC intra trade even after the setting up of the customs union. Only about 3% of the sample did not agree with that idea, and 12.3% were not sure.

Table 6.8: GCC Intra -Trade Impediments

GCC Intra trade Impediments	Frequency	Percent
Strongly Agree	47	28.8
Agree	90	55.2
Not Sure	20	12.3
Disagree	4	2.5
Strongly Disagree	1	0.6
Missing Data	1	0.6
Total	163	100.0

Table 6.9: Difference in Impediments

Difference in Impediments	Frequency	Percent
Strongly Agree	43	26.4
Agree	89	54.6
Not Sure	18	11.0
Disagree	4	2.5
Strongly Disagree	1	.6
Missing Data	7	4.3
Spoiled Data	1	.6
Total	163	100.0

6.4.2 Difference in Impediments:

As is obvious from table 6.9, the majority of the Omani businessmen (81% of the whole sample), think that the impediments which face GCC intra trade are different from one country to another, while only 3% of the sample do not agree with the previous opinion and 11% are not sure.

6.4.3 Country with the Least Trade Impediments:

As can be seen from table 6.10, the United Arab Emirates have the least trade impediments, according to more than 83% of Omani businessmen. This high percentage may explain the reason why many Omani businessmen import from and export to the United Arab Emirates. Bahrain is considered second with 4.3%, and Qatar 2.5% with the least trade obstacles.

Table 6.10: Country less Trade Impediments

Country less Trade Impediments	Frequency	Percent
UAE	136	83.4
Bahrain	7	4.3
Saudi Arabia	3	1.8
Kuwait	2	1.2
Qatar	4	2.5
Missing Data	11	6.7
Total	163	100.0

6.4.4 Country with most Serious Trade Impediments:

Table 6.11 shows that the Kingdom of Saudi Arabia is believed to have the most serious trade impediments among the GCC States. About 78.5% of the Omani businessmen think this. The figure for both Qatar and the United Arab Emirates is 3.7%, for Kuwait 2.5% and for Bahrain 1.2%.

Table 6.11: Country with Most Serious Trade Impediments

Most Serious Trade Impediments	Frequency	Percent
UAE	6	3.7
Bahrain	2	1.2
Saudi Arabia	128	78.5
Kuwait	4	2.5
Qatar	6	3.7
Missing Data	17	10.4
Total	163	100.0

Table 6.12: Role of CU in Eliminating Impediments

CU eliminating Impediments	Frequency	Percent
Strongly Agree	43	26.4
Agree	75	46.0
Not Sure	31	19.0
Disagree	12	7.4
Strongly Disagree	1	.6
Missing Data	1	.6
Total	163	100.0

6.4.5 The Role of the Customs Union in Eliminating Impediments:

Table 6.12 shows that the great majority of the respondents (over 72% of the sample) believe that the establishment of the customs union among the GCC countries will help to eliminate the obstacles that are hindering the intra-trade among the GCC Countries. By contrast, only 8% of the sample disagrees with this point of view, while 19% of the respondents are not sure.

Table 6.13: CU Increase Intra Trade

CU Increase Intra Trade	Frequency	Percent
Strongly Agree	47	28.8
Agree	81	49.7
Not Sure	28	17.2
Disagree	3	1.8
Strongly Disagree	1	.6
Missing Data	3	1.8
Total	163	100.0

6.4.6 Customs Union will Increase volume of Intra-trade:

Table 6.13 shows that over 78% of the sample expect that the volume of intra-trade among GCC countries will increase rapidly as a result of the formation of the customs union, with something over 2% of the respondents disagreeing and 17.2% of the sample not sure.

6.4.7 GCC National Products Similarity:

As is clear from table 6.14, most respondents about 58% of the sample think that the similarity between GCC national products inhibits GCC intra-trade. This similarity came about as a result of the absence of a real common industrial policy among the GCC countries and because of a lack of harmonization among the goods that the region has a comparative advantage in producing.

On the other hand, less than 25% of the respondents disagree that the resemblance between GCC products inhibits intra-trade, while 15.3% of the samples are not sure.

Table 6.14: GCC National Products Similarity

GCC National Products Similarity	Frequency	Percent
Strongly Agree	34	20.9
Agree	60	36.8
Not Sure	25	15.3
Disagree	36	22.1
Strongly Disagree	4	2.5
Missing Data	4	2.5
Total	163	100.0

6.4.8 Role of CU Principles in Developing Intra-Trade:

Figure: 6.6 CU Principles Role

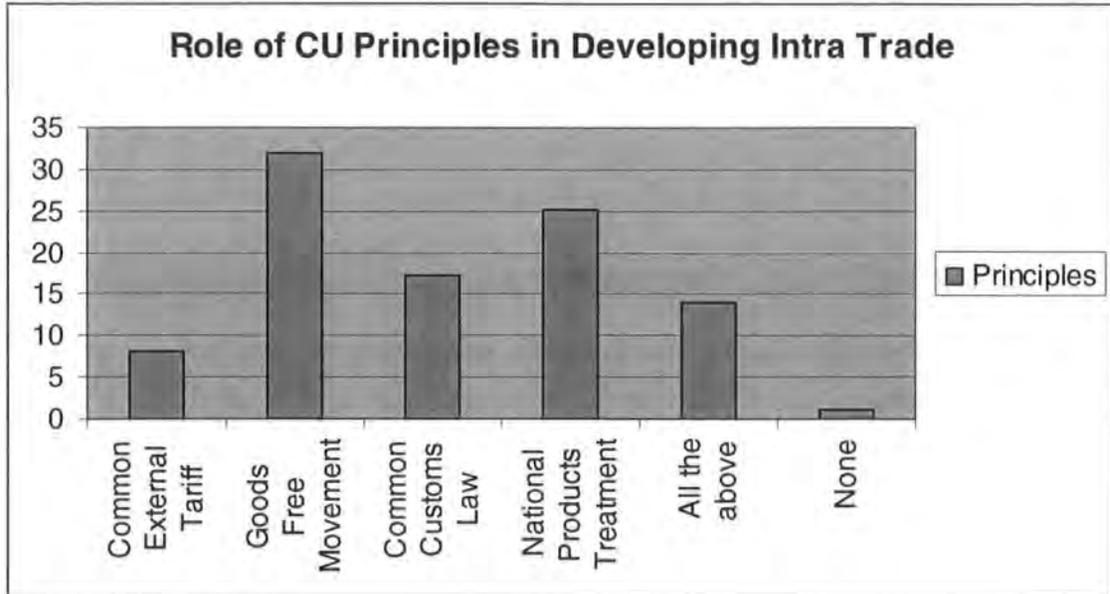


Table 6.15 shows that the majority of respondents - almost 32% of the entire sample - regard the free movement of goods among the Gulf States without customs or non-customs restrictions as a very important step that will play a positive role in improving intra-trade among the GCC countries.

While 25% of Omani businessmen consider the treatment of goods produced in any of the GCC country as a very important matter, 17.2% of the respondents regard the common customs law in this light, and 8% of the sample thinks that adopting a common external tariff is the most important issue of the customs union. Over 14% of the sample, however, believe that all the above are very important principles.

Table 6.15: Role of CU Principles in Developing Intra Trade

Role of CU Principles in Developing Intra Trade	Frequency	Percent
Common External Tariff	13	8.0
Goods Free Movement	52	31.9
Common Customs Law	28	17.2
National Products Treatment	41	25.2
All the above	23	14.1
None	2	1.2
Missing Data	4	2.5
Total	163	100.0

6.5 CU Effects on the Omani Economy:

This section is dedicated to analyzing the effects of the customs union on the Omani economy from the Omani businessman's point of view. This section includes a number of findings covering several factors and obstacles which influence the Omani economy in its trade relations with the GCC countries, such as a chronic deficit in its trade balance with them and the abandonment by some Omani businessmen of the practice of importing and exporting directly through Omani ports, coupled with their preference for importing indirectly through neighbouring countries' ports.

Table 6.16: Factors of Import from the GCC

Factors of Import from GCC	Frequency	Percent
Huge Size of the Market	22	13.5
Low Price	48	29.4
Absence of border Customs Points	4	2.5
Lack Information about International Markets	12	7.4
Mutual understanding and Payment facilities	9	5.5
All	59	36.2
Missing Data	9	5.5
Total	163	100.0

6.5.1 Factors of Import from the GCC Countries

As can be seen from table 6.16, over 29% of Omani businessmen think that the low price of commodities is the main factor behind their preference for importing from the neighbouring GCC countries. However, 13.5% chose the large size of the market and the diversity of goods on offer in the GCC countries as the main factor.

7.4% of the businessmen ascribe this phenomenon to a lack of information about the international markets, and 5.5% of them put it down to mutual understanding and easy payment facilities. Meanwhile, only 2.5% think that the absence of a border customs point with these neighbouring countries is an aspect of this phenomenon.

What is more, a large minority of the respondents (over 36%) think that all the previous reasons as very important justifications for importing from neighbouring countries.

Table 6.17: Tourism Factor

Tourism Factor	Frequency	Percent
Strongly Agree	43	26.4
Agree	74	45.4
Not Sure	11	6.7
Disagree	23	14.1
Strongly Disagree	5	3.1
Missing Data	7	4.3
Total	163	100.0

6.5.2 Tourism Factor:

Table 6.17 shows that 71% of the respondents agree or strongly agree that tourism plays a significant role in motivating many Omanis to purchase from neighbouring markets. Nevertheless, 17% of the businessmen disagree with this opinion, and 6.7% of the sample are not sure.

Table 6.18: Formalities Difference in Omani Ports

Formalities Difference in Omani Ports	Frequency	Percent
Strongly Agree	29	17.8
Agree	70	42.9
Not Sure	29	17.8
Disagree	24	14.7
Strongly Disagree	5	3.1
Missing Data	6	3.7
Total	163	100.0

6.5.3 Formalities Difference in Omani Borders:

As can be see from table 6.18, over 60% of the respondents agree or strongly agree with the point that the ease of Omani border customs' formalities compared with those at sea and in airports encourages many Omanis to import from neighbouring GCC countries. Whereas, less than 18% of the sample disagreed with that opinion and 17.8% are not sure.

6.5.4 The Role of the Common Tariff in Removing Price Differences:

Table 6.19 shows that over 51% of Omani businessmen agree or strongly agree with the opinion that the adopting of a common customs tariff will remove the difference in prices between GCC markets and will decrease the number of Omani people purchasing from the markets of neighbouring countries. On the other hand, over 27% of the sample disagree with this point of view and, less than 18% of the sample are not sure.

Table 6.19: Common Tariff removes Price differences

Common Tariff remove Price differences	Frequency	Percent
Strongly Agree	38	23.3
Agree	46	28.2
Not Sure	29	17.8
Disagree	40	24.5
Strongly Disagree	5	3.1
Missing Data	5	3.1
Total	163	100.0

6.5.5 Reasons for Importing through GCC ports:

Table 6.20 shows that the majority of respondents refuse to attribute the phenomenon of the preference of some Omani businessmen to import their goods indirectly through neighbouring countries' ports rather than through domestic ones to a single reason, therefore about 59% of the sample chose all the above reasons as factors behind this phenomenon.

The attitudes of other respondents divide into the various reasons which are mentioned above. For example, 9.8% of the sample referred this phenomenon to the difficulty in customs declaration procedures in Omani ports compared with neighbouring countries' ports, while 9.2% of the sample ascribed it to the high cost of shipping and insurance to Omani ports in comparison to neighbouring ones. A further, 7.4% attributed it to the absence of regular shipping between the Sultanate ports and the rest of the world.

Only 1.2% of the sample think that the period in which the declaration is free of charge is too short. However, 1.8% of businessmen traced this phenomenon to a lack of warehouses in Omani ports.

Table 6.20: Reasons for Importing through GCC Ports

Reasons for Importing through GCC Ports	Frequency	Percent
High Cost of Shipment and Insurance	15	9.2
High Cost of Land and Handling	10	6.1
Short of Declaration Period	2	1.2
Lack of warehouses	3	1.8
Absence of regular shipping	12	7.4
Difficulty in Customs Declaration	16	9.8
All	96	58.9
Missing Data	9	5.5
Total	163	100.0

6.5.6 Role of Common Customs Law:

As can be seen from table 6.21, the majority of the sample think that adopting a common customs law will remove the diversity in customs procedures between the GCC countries and will encourage Omani businessmen to import directly through Omani ports. However, 11% of the sample disagree with that opinion and 21.5% of the respondents are not sure.

Table 6.21: Role of Common Customs Law

Common Customs Law Role	Frequency	Percent
Strongly Agree	46	28.2
Agree	57	35.0
Not Sure	35	21.5
Disagree	16	9.8
Strongly Disagree	2	1.2
Missing Data	7	4.3
Total	163	100.0

6.6 Customs Union Effects on Omani Exports to GCC Countries:

This section will analyze the probability of the customs union contributing to an increase in the volume of Omani exports as a result of removing tariff and non-tariff impediments confronting these products before the founding of the CU. This section is the largest section among those dedicated to analyzing the collected data from Omani businessmen. It consists of 10 sub-sections, as follows:

6.6.1 Omani Exports Impediments:

Table 6.22 shows that the majority of Omani businessmen think that Omani exports to the GCC countries still face some obstacles, even after the setting up of the customs union, whereas, only 4% disagree with that opinion. In comparison, over 29% of the sample are not sure about it.

Table 6.22: Omani Exports impediments

Omani Exports impediments	Frequency	Percent
Strongly Agree	21	12.9
Agree	74	45.4
Not Sure	48	29.4
Disagree	13	8.0
Strongly Disagree	2	1.2
Missing Data	5	3.1
Total	163	100.0

6.6.2 The Main Obstacles Facing Omani Exports to the GCC:

As can be seen from table 6.23, the low price of foreign products is the main obstacle facing Omani exports in the GCC countries, according to a substantial section of Omani businessmen, forming about 27% of the whole sample, when compared with 12.3% of low prices for local products to the importing countries and almost 10% for routine and administrative obstacles in the process of clearance and transit at the frontiers of the importing countries.

About 21% of the respondents prefer not to reduce this problem to a single reason, since they think that all the above reasons play a role in hindering Omani exports to the GCC countries.

Table 6.23: Main Obstacles Facing Omani Exports

Obstacles affect Omani Exports	Frequency	Percent
Long distance Between GCC Markets	11	6.7
Low Prices of local products	20	12.3
Low Price of foreign Products	44	27.0
Routine and Administrative Obstacles	16	9.8
Differing specifications	4	2.5
Preference for local Products	3	1.8
Lack of Information about GCC Markets	10	6.1
All The above	34	20.9
Others	3	1.8
Missing Data	18	11.0
Total	163	100.0

6.6.3 The CU will help to increase Omani Exports to the GCC:

Table 6.24 shows that, in spite of the obstacles facing Omani exports to the GCC countries, the majority of Omani businessmen think that the creation of the customs union will help to increase Omani exports to the GCC countries. Less than 8% disagree with that point of view and over 22% of the sample are not sure.

Table 6.24: The CU will help to increase Omani Exports to the GCC

CU will increase Omani Exports to GCC	Frequency	Percent
Strongly Agree	37	22.7
Agree	76	46.6
Not Sure	37	22.7
Disagree	10	6.1
Missing Data	3	1.8
Total	163	100.0

6.6.4 GCC Products as the Main Competitor to Omani Products:

Table 6.25 shows that over 47% of the sample agree or strongly agree with the opinion that GCC national products are the main competitor to Omani national products, with less than 32% of the respondents disagreeing with that point of view. This compares with 17.8% of the respondents who were not sure.

Table 6.25: GCC Products Competitor to Omani Products

GCC Products Competitor to Omani Products	Frequency	Percent
Strongly Agree	19	11.7
Agree	58	35.6
Not Sure	29	17.8
Disagree	48	29.4
Strongly Disagree	4	2.5
Missing Data	5	3.1
Total	163	100.0

6.6.5 Protection for Local Industries:

As can be seen from table 6.26 the majority of the respondents agree with the idea that the adopting of 5% as a common tariff among the GCC countries without any protection for local industries will put these products in unfair competition with the developed countries' products. By comparison, less than 18% of the sample disagree with this idea and about 23.9% are not sure.

Table 6.26: Protection for local Industries

Protection for local Industries	Frequency	Percent
Strongly Agree	36	22.1
Agree	56	34.4
Not Sure	39	23.9
Disagree	29	17.8
Strongly Disagree	3	1.8
Total	163	100.0

Table 6.27: Most GCC Country products competitive in Oman

GCC products most competitive in Oman	Frequency	Percent
UAE	68	42.3
Bahrain	1	.6
Saudi Arabia	72	44.2
Kuwait	2	1.2
Qatar	1	.6
None	15	9.2
Missing Data	3	1.8
Total	163	100.0

6.6.6 Most GCC Country products competitive in Oman:

According to table 6.27, Saudi Arabia and the United Arab Emirates' products are the most competitive in the Omani market. The percentage of the two countries is very

close: about 42% for the UAE and 44% for Saudi Arabian products.

This result is not surprising given that the two countries (UAE and KSA) have the largest economies among the GCC countries.

On the other hand, Kuwaiti products occupy third place with 1.2%. Bahrain and Qatar products share 0.6%. 9.2% of the entire sample were not sure.

Table 6.28: Factors behind Low Prices

Factors behind Low Prices	Frequency	Percent
Mass production	32	19.6
Disposal of surplus	4	2.5
Governmental Subsidies	52	31.9
Exported Goods Low quality	6	3.7
Low cost of production and	11	6.7
All	52	31.9
Missing Data	6	3.7
Total	163	100.0

6.6.7 Factors behind Low Prices:

Table 6.28 shows that Omani businessmen's interpretation for this strong competition among GCC products in the Omani market is also different. As can be seen from the above table, a large minority of the respondents (about 32% of the sample) think that the direct and indirect governmental subsidies given to industry were the main factors behind these countries offering lower prices for their products in the Omani Markets. About 20% of the respondents attribute this situation to the low unit price resulting from mass production in these countries. Another 7% of the sample think it is due to the low price of production inputs and services, about 4% put it down to the low quality of

exported goods and 2.5% of the sample ascribe it to the disposal of surplus production.

About 32% of the respondents preferred not to attribute this phenomenon to a single factor as they believed that all the above-mentioned factors were behind this issue.

Table 6.29: Factors Limit Omani exports to the GCC

Factors Limit Omani exports to the GCC	Frequency	Percent
Difference in quality	6	3.7
High cost of production	82	50.3
Administrative Obstacles	24	14.7
Differences in specifications	4	2.5
Preference of In-country-Products	25	15.3
All the above	15	9.2
Others	1	.6
Missed Data	6	3.7
Total	163	100.0

6.6.8 Factors Limit Omani Exports to the GCC Countries:

Table 6.29 shows that the high price of commodities caused by the high cost of production, transport and services, is the main factor limiting the export of products by Omani industrial firms to Gulf markets. While over 15% of the respondents credit it to in-country preferences for in-country products, 14.7% attribute it to administrative obstacles in exporting and marketing in these countries. In addition, 3.7% of the sample refer to the Omani inability to compete in terms of quality, while over 9% of the businessmen think that all the above factors contribute to this problem.

6.6.9 The GCC National Products Similarity:

As can be seen from table 6.30, over 72% of Omani businessmen either agree or strongly agree with the idea that the similarity in GCC national products has saturated the markets in the Gulf area because too many licenses have been issued for similar industries. On the other hand, only about 9% of the sample disagree with this idea, compared with 18.4% who are not sure.

Table 6.30: GCC Similar products

GCC Similar products	Frequency	Percent
Strongly Agree	40	24.5
Agree	78	47.9
Not Sure	30	18.4
Disagree	15	9.2
Total	163	100.0

6.6.10 Common Industrial Policy:

As a result of the recognition that GCC markets are saturated with similar national products, table 6.30 revealed that the vast majority of Omani businessmen (more than 87% of the sample) think that GCC countries should adopt common industrial policies and specifications, which would be in the interests of their manufactures. Despite this, almost 9% of the sample disagree with the proposition and 8% are not sure.

Table 6.31: Common Industrial Policy

Common Industrial Policy	Frequency	Percent
Strongly Agree	71	43.6
Agree	71	43.6
Not Sure	13	8.0
Disagree	5	3.1
Strongly Disagree	1	.6
Missing Data	2	1.2
Total	163	100.0

6.7 Adopting Further Economic Integration Steps among the GCC Countries:

This section is dedicated to analyzing the attitude of Omani businessmen towards adopting further economic integration steps, such as the GCC common market and monetary union, as the only way for the GCC countries to overcome their economic problems and attain economic integration benefits.

This section consists of four sub-sections covering all further steps that may contribute to developing the economic integration process among the GCC countries.

Table 6.32: Economic Integration Speed

Economic Integration Speed	Frequency	Percent
Strongly Agree	87	53.4
Agree	55	33.7
Not Sure	17	10.4
Disagree	2	1.2
Strongly Disagree	1	.6
Missing Data	1	.6
Total	163	100.0

6.7.1 Economic Integration Speed:

As is clear from the table 6.32, the great majority of Omani businessmen show dissatisfaction towards the slow speed of economic integration among the GCC countries, which has continued for the last two decades, and they think it should accelerate in the future.

Over 87% of the respondents consider the economic integration process to be very slow, with only 2% of the sample disagreeing. In comparison with about 10% who are not sure.

Table 6.33: GCC Monetary Union

GCC Monetary Union	Frequency	Percent
Strongly Agree	107	65.6
Agree	43	26.4
Not Sure	11	6.7
Disagree	1	0.6
Missing Data	1	0.6
Total	163	100.0

6.7.2 GCC Monetary Union:

Table 6.33 reveals that most Omani businessmen either agree or strongly agree with the view that the establishing of the GCC monetary union and the adopting of a single currency will be a crucial step in the economic integration process. Less than 1% disagrees and a mere 6.7% of the sample are not sure.

6.7.3 GCC Common Market:

As table 6.34 reveals, there is virtual unanimity among Omani businessmen about the idea that the setting up of the GCC common market, in which the free movement of goods, capital and people among the GCC countries is accompanied by common economic and fiscal policies, will be most fruitful for the GCC countries. While some 2.5% of the respondents are not sure, the survey did not register any disagreement with this idea.

Table 6.34: GCC Common Market

GCC Common Market	Frequency	Percent
Strongly Agree	100	61.3
Agree	57	35.0
Not Sure	4	2.5
Missing Data	2	1.2
Total	163	100.0

6.7.4 Enlargement of the GCC Market:

Table 6.35 shows that the majority of the sample agrees with the idea that the enlargement of the Gulf market by including a new neighbouring market, such as Yemen and Iraq, will be to the advantage of the GCC economies. As for the rest, less than 8% disagree and 16% of the sample is not sure.

Table 6.35: Enlargement of the GCC market

Enlargement of the GCC market	Frequency	Percent
Strongly Agree	67	41.1
Agree	55	33.7
Not Sure	26	16.0
Disagree	10	6.1
Strongly Disagree	3	1.8
Missing Data	1	.6
Total	162	99.4

6.8 Focus Group Interview Findings with Omani Senior Officials about the Inception of the GCC Customs Union and its Effects on the Omani Economy:

6.8.1 The Effects of the CU on Omani Exports and Imports

Prior to the establishment of the CU, the Sultanate of Oman exports to GCC countries experiencing a number of obstacles. Several of these difficulties related to the tariff and non-tariff procedures which some member states imposed on the imported goods. But the situation under the customs union umbrella was better, according to the view of the focus group:

“Of course there was an improvement in the Omani international trade balance with neighbouring countries during the CU era. This could be observed clearly from the foreign trade statistics which registered an increase in the volume of exports of Omani national products to the GCC countries. But we should not forget that the intra-trade still faced some obstacles because of the variation in implementing the customs union procedures among the member states and because these states had not yet reached a final solution for some of the crucial problems facing the customs union, such as the future of the customs land borders between the member states, which subjected GCC goods to a dual procedure in their movement between the GCC countries”.

During an interview, another senior official tried to explain the other customs obstacles by focusing on the existence of three types of fear among various member states:

“The first is the security factor, whereby some GCC countries are in the power of drug gangs because of their prosperity and wealth. In addition, terrorist groups threaten the stability of some member states. The second factor is that some countries are keen to ensure that only GCC national products benefit from the customs union and they do not allow non-CU members’ products to profit from these facilities by exporting them under GCC labels. The last factor behind these customs procedures may be understood

because of the fears that exist among some GCC countries which have a huge market, such as Saudi Arabia, which represents almost 75% of the entire GCC trade. This situation generates fear in that country that it will be subject to an economic invasion from other GCC or non-GCC products. So, it tries to maintain these procedures in order to protect its national economy”.

Another interviewee assigns the remaining customs obstacles on the GCC borders to: “The failure of these countries to adopt a suitable collective formula to collect and distribute the customs revenues among the GCC states as well as the European Union Countries, was a major reason behind the continuation of these obstacles even after the inception of the GCC customs union. Therefore, every country tries to carefully inspect the goods which are imported into its market in order later to ensure a big portion of the customs union revenue”.

6.8.2 The Effect of the CU on the Omani Economy

The Sultanate of Oman suffered for a long time from a deficit in its trade balance with neighbouring countries, especially with Dubai, which is famous for its superior facilities for imports and exports together with low customs tariffs for imported goods. However, under the customs union conditions, this situation started to improve, according to the view of the focus group:

“Theoretically the customs union should lead to an improvement in the trade balance and lead to a greater movement of goods amongst the member states. In Oman, this improvement could actually be observed in the progress of the movement of goods in the ports and through the growth of Omani exports to the GCC countries.

Another interviewee explained that the deficit in the Oman trade balance was restricted to the UAE and Saudi Arabia, which are regarded as the major trade partners of the Sultanate, whereas our trade balance with other GCC countries is inclined in Oman’s favour. For example, most of the Saudi chemical products act as raw material for Omani industries and are used as an input for Omani factories.

Moreover, the free movement of goods and the adopting of an open market policy among all the CU members helps and will help even more in the future to eliminate any differences in price in the GCC markets.

As for the problem that existed prior to the establishment of the customs union, where some Omani businessmen stopped importing their goods through Omani ports and preferred to do so through other GCC ports, the interviewees state that:

“The trade movement through Omani ports is better now than the situation which was prior to the establishment of the customs union. This improvement may be partly regarded as a result of the existence of the CU, because before the setting up of the customs union, there was an advantage for Dubai ports through their reputation for providing facilities for importers in addition to low customs tariffs, but under the customs union regulations and the common customs law these advantages were unified and common to all GCC ports.

Another interviewee added, “Regarding imports through Dubai ports, this issue is partly related to international agencies, most of whom chose Dubai as a location for their business, and this situation may need some time to improve”.

6.8.3 Similarity between GCC National Products:

The absence of co-ordination in the industrial sector of the GCC countries led to the saturation of the GCC market with similar products. According to the interviewees:

“No doubt there is a similarity in many GCC products, especially in the chemical products sector and in food stuffs. But we should not forget that many chemical products are designed and made for exporting to the international market not for the GCC market only.

One senior official added:

In fact, the GCC countries adopted a common industrial strategy, which includes common policies, and one of its principles has tried to put an end to this similarity in industry. But this strategy is still voluntary and not obligatory.

6.8.4 Factors behind Importing from Neighbouring Countries:

Importing and purchasing from the UAE market, especially Dubai, by Omani businessmen and individuals has become a worrying phenomenon, because it means a deficit in Omani trade balance especially during these early stages of the economic

integration, Also, this intensive importing from Dubai reflect from the other hand the abandonment of some Omani businessmen to import their goods directly through the Sultanate ports and all these economic phenomenon negatively affects the local market in the Sultanate. The focus group attribute this phenomenon to several factors:

“The historical factor played a major role in this phenomenon, so that the Omani people became accustomed to importing from Dubai for a long time. There was also the low price, which was a result of wholesale and quantity discounts, in addition to the low tariff of customs and the facilities in the Dubai ports”.

Another interviewee attributes this phenomenon to “the sole agent law which was implemented strictly during the seventies and eighties in the Sultanate before the government cancelled it. As a result, the agent exploited the law to control the local market and impose whatever price he wished. This situation motivated some businessmen to look for alternatives in the Dubai market.

Furthermore, the diversification in goods in the Dubai market, which responded to different levels of consumer desires, was a strong reason behind the Omanis importing and purchasing from that market”.

Another interviewee added: “in fact, this phenomenon is usually restricted to small importers, since powerful businessmen import their goods at the point of origin, directly and through Sultan Qaboos port”.

6.8.5 Factors behind Importing through Neighbouring Countries Ports:

The ports in the sultanate suffer from strong competition from UAE ports, especially Dubai. The interviewee group recognise this phenomenon and have offered several interpretations:

“Some factors behind this phenomenon existed before the establishment of the customs union, such as the low customs tariff and the ease of customs procedures. Some still exist and will not be removed in the short term. One of them is the availability of more services in the Dubai ports, like warehouses and the ease of declaration. Furthermore, the volume of imports in Dubai is bigger than that in

Sultan Qaboos port, because the former depends on re-export activity to several countries within and outside the region. This situation has led to a reduction in the cost of cargoes imported through Dubai”.

Another interviewee added “Regarding the port fees, two years ago the port services institution studied this issue in depth and many official institutions participated, such as the Ministry of Transport and Communication, the Ministry of Commerce and Industry, in addition to the Sultan Qaboos port. This study was conducted with the assistance of an overseas adviser brought in to evaluate and discuss this issue.

The advisor conducted a comparative study of the Sultan Qaboos and Dubai ports. This study concluded that fees in the Sultan Qaboos port were almost equal to those collected in Dubai. But the problem was in the size of the market since Dubai is highly dependant upon the re-export trade and some of the facilities which are available there are not available here in the Sultanate”.

One interviewee added another reason: “Some Omani ports impose specifications about the type of ship that is allowed to benefit from the port facilities, through the imposition of restrictions, such as not allowing small ships, especially traditional ships, to use their ports, whereas, in Dubai the facilities are available for every type of ship regardless of its size”.

6.8.6 The Role of the CU in Increasing Omani Exports:

Omani exports, before the establishment of the CU, suffered from tariff and non-tariff barriers, as well as the limitations of the Omani local market.

But according to the view of the focus group, the situation after the inception of the customs union was different:

“It is taken for granted that one of the important goals of any customs union is to encourage the industry through creating trade amongst the member states. Therefore the customs union provides Omani businessmen with a huge market including more than thirty million people living in very prosperous and rich countries.

Before the creation of the customs union, a lot of Omani businessmen based their economic visibility study on the local market, which includes some two million people, whereas economic visibility under the CU umbrella is based on a relatively huge and rich market. This situation may partly explain the reason behind establishing some industrial regions in Oman in places neighbouring the UAE, like the Sohar Industry Region”.

6.8.7 Adopting Further Economic Integration Steps:

In many third world countries the economic integration process is confronted by several challenges. Maintaining national sovereignty was a major factor behind the failure of these experiments, especially when integration came to states which had attained independence relatively recently, like some GCC Countries. According to the focus group interviewees, attitudes towards further economic integration are different:

“The economic integration process has become an international phenomenon and the Sultanate and other GCC countries are not far removed from these international changes. The Sultanate looks positively upon the adopting of further economic integration among the GCC countries, because it will benefit a lot from it, not only in the goods sector but also in the labour and capital sectors. For example, whereas some GCC countries suffer from a shortage of labour, others suffer from a surplus in this sector. Therefore, integration will be an advantage for the GCC countries”.

Another interviewee added that “In fact, the GCC countries adopted several steps which went beyond the customs union stage, such as facilitating the movement of GCC citizens through the use of personal identity cards rather than passports and allowing them to practice certain economic activities within the GCC countries in the same way as the citizens”.

6.8.8 Enlargement the Customs Union Membership:

The success of any Economic integration experiment in some countries usually tempts neighbouring countries to look forward to membership in this community. The interviewees explain their attitude towards the expansion of customs union membership to include neighbouring countries, such as Yemen and Iraq, in the GCC market:

“It is believed that as the market grows bigger it becomes more profitable and more beneficial for the members. The inclusion of new markets, such as those of Iraqi and Yemen, with their huge populations will provide businessmen in the GCC with an opportunity to benefit from them and will enable the setting up of. large-scale industries in the region which will be more profitable and less costly”.

The interviewees emphasise this point by saying “In fact, the GCC countries look further than these two markets and are looking towards benefiting from the entire Arab market . We are already members of the Arab Free Trade Area which includes twenty countries. There is also a plan among the Arab League to develop into a customs union in the future and to include all the Arab Countries”.

One interviewee pointed out some obstacles from the past which were behind the anxiety of some GCC countries to include these two countries - Iraq and Yemen - in GCC membership: “The difference in political systems between the GCC countries and Iraq and Yemen played a role in keeping these two countries out of the GCC umbrella in the past, as well as the security factor which also played a role on this issue. But the last decade has shown big changes and positive progress in these two countries, which may qualify them for closer cooperation with GCC countries”.

6.8.9 The Role of the Tourist Sector on the Economic Integration Process:

In the last two decades, the GCC Countries have shown rapid growth in the number of people participating. This phenomenon is highlighted when considering the future of the tourist sector in leading the economic integration process among the GCC Countries. The focus group recognizes this reality: “the increasing role of this sector in the integration process provides it with an opportunity to play a positive role in strengthening the relationship between the people of the GCC countries and helps to overcome many social and economic barriers. However the tourist sector in the GCC countries sometimes needs to play a distinct role in the economic integration process. Because this sector is still relatively new, most GCC countries suffer from a lack of a basic tourist infrastructure. Therefore, its role will not be an alternative to that of the other sectors in the integration process, but complementary”.

One interviewee thinks that “the Sultanate will be the main beneficiary from growing and developing the role of the tourist sector, since the Sultanate is the only state amongst the GCC countries that has many tourist features, such as diversified natural landscapes and moderate weather in Salalah during the summer. This feature has started to attract thousands of GCC citizens as, at the same time, the temperature reaches fifty centigrade in some GCC countries during the summer season”.

6.8.10 Speed of Economic Integration

The GCC countries took about twenty three years to move from the Free Trade area to the Customs Union stage. Omani senior officials interpret this sluggishness in the Economic integration process as follows:

“When GCC economic integration was established about a quarter of a century ago, the abolishing of the customs tariff was not a simple issue. In fact, what the GCC countries decided at that stage was regarded as a great achievement, and a successful step, compared with the integration experiments in the Arab and third world countries. Furthermore, we should not forget that during the last two decades the GCC has been kept busy with huge events like the Iraq-Iran war, which went on for more than eight years, and the Iraqi invasion of Kuwait in 1990. These important incidents caused the GCC countries to pay less attention to economic issues and concentrate their efforts on solving those political problems that were threatening the future of the whole region”.

Another interviewee is of the opinion that “adopting further economic integration steps will not consume that much time in the future. It will be easier than the previous integration stages, especially after the progress of the GCC countries in completing their legislative and industrial infrastructures”.

Another interviewee stresses the view that “according to the timetable that was approved by the leaders of the GCC, the monetary union, the GCC single currency should be introduced in 2010. Therefore, we hope that the march of economic integration will continue with steady and rapid steps in the future”.

6.8.11 The Protection of the Industrial Sector

The first three years after the inception of the CU, showed that some GCC countries, like Saudi Arabia, adopted unilateral decisions contrary to the customs union principles, to impose high tariffs on imported goods, in order to protect their national products from external competition.

Omani officials recognise this problem and they express their point of view about this issue thus:

“The developing countries’ experiments in resorting to a higher tariff as an instrument to protect their national products was a failed policy. Consequently, our policy in GCC countries was against this because previous experiments taught us that the protection of industry through imposing a high tariff did not benefit these products, but affected those industries negatively by preventing the manufacturers from improving their industries or developing their products”.

Another interviewee added, “Regarding the Saudi Arabia decision to protect its national products, a resolution issued later by the GCC Supreme Council gave Saudi Arabia an exemption to protect its products during this interim stage, which it was decided would continue for three years, ending in 2005”.

6.8.12 Postponement of Some CU Issues:

Many CU issues were left without a resolution and there was a postponement of crucial issues, such as the collection and distribution mechanism of the customs revenues and the shares of the participant countries from these revenues. In addition, the role of the intra-customs land borders between the member states was left unresolved. Delaying these issues for a later stage threatens the future of the customs union and leaves it at the mercy of the whims and views of the member states.

According to a focus group view:

“In fact, these issues were delayed as a result of the GCC countries’ inability to reach final solutions during the inception stage. The interim stage is due to finish at the end of 2005. However, unfortunately, the GCC countries have not arrived at any solutions for these critical issues up till now. And no one knows whether the GCC

countries will extend this stage during this short interim period or will manage to reach a final solution”.

Another interviewee added another reason behind the postponement of these problems:

“In fact the postponement of some problems, such as the collection and distribution mechanism of the customs revenues and the shares of the participant countries from these revenues, was to give time for the member states to look for a fair mechanism to determine each country’s share, as it is known that the GCC countries vary in import volumes and tariff rates which were adopted in the member countries before the establishment of the customs union. Therefore, it was not easy to ascertain the exact share of every member state from the CU revenues. Consequently, there was no solution except the postponement of this problem so as to determine the real volume of imports in every country and their share from these revenues”.

6.8.13 *Satisfaction about the GCC Achievements of the Omani Economy:*

Finding out the attitudes about this experiment after almost three years from the inception of the CU is something that would be helpful in reading the future of this economic integration process.

The interviewees said “we are satisfied with the customs union achievements, despite some difficulties facing its progress in the previous years; the CU is the only available choice for the GCC countries.

If we compare the situation today with that before the founding of the customs union, it can be seen how the customs unions serve national products, which nowadays can move freely without customs tariffs, and under the CU rules the need for prior qualification for industrial factors, in order to obtain an exemption from customs duty, is abolished”.

Another interviewee added: “maybe some businessmen or citizens are unable to see the fruits of the customs union in this period because the CU is still at a transition stage, in which many important issues are postponed. But in the future and as soon as the GCC countries finish with this stage, it will be easy for everyone to see the results of this economic integration”.

6.8.14 The Attitude to Bilateral Trade Agreements:

After the creation of the CU, some GCC countries unilaterally signed Free Trade Area agreements with other countries, such as the United States, Sultanate of Oman and Bahrain despite the protests from some GCC countries because such agreements are against CU principles.

From the focus group point of view “such agreements, which are opposed to customs union principles and such treaties should be negotiated collectively under the CU umbrella, and not individually. However, this problem could be overcome in the future by converting them into collective rather than bilateral agreements”.

Summary of focus group interview results

Issue	Coded Response
The Effects of the CU on Omani Exports and Imports	there was an improvement in the Omani trade balance with the GCC countries during the CU stage, in spite of continuation of some obstacles during the transitional period, because of the variation in implementing the customs union procedures among the member states and because these states had not yet reached a final solution for some of the crucial problems facing the customs union
The Effect of the CU on the Omani Economy	In Oman, this improvement could be observed in the progress of the movement of goods in the ports and through the growth of Omani exports to the GCC countries. the free movement of goods and the adopting of an open market policy among all the CU members helps and will help even more in the future to eliminate any differences in price in the GCC markets. Also the trade movement through Omani ports is better now than the situation which was prior to the establishment of the customs union, as a result of unification of the customs procedures and customs tariff in all GCC ports.
Similarity between GCC National Products:	There is a similarity in many GCC products, as a result of not activating the common industrial strategy especially in the chemical products sector and in food stuffs. But we should not forget that many chemical products are designed and made for exporting to the international market not for the GCC market only.

Factors behind Importing from Neighbouring Countries	The historical factor played a major role in this phenomenon, so that the Omani people became accustomed to importing from Dubai for a long time. Also there was the low price, which was a result of wholesale and quantity discounts, in addition to the low tariff of customs and the facilities in the Dubai ports, and the diversification in goods in Dubai market. in addition to the sole agent law which was implemented strictly during the seventies and eighties in the Sultanate.
Factors behind Importing through Neighbouring Countries Ports	Some factors behind this phenomenon existed before the establishment of the customs union, such as the low customs tariff and the ease of customs procedures. Some still exist and will not be removed in the short term. One of them is the availability of more services in the Dubai ports, like warehouses and the ease of declaration. In addition, the volume of imports in Dubai is bigger than that in Sultan Qaboos port, because the former depends on re-export activity to several countries within and outside the region.
The Role of the CU in Increasing Omani Exports:	There is an improvement in Omani exports because the customs union provides Omani businessmen with a huge market including more than thirty million people living in very prosperous and rich countries.
Adopting Further Economic Integration Steps	The Sultanate looks positively upon the adopting of further economic integration among the GCC countries, because it will benefit a lot from it, not only in the goods sector but also in the labour and capital sectors.
Enlargement of the Customs Union Membership:	The inclusion of new markets, such as those of Iraq and Yemen, with their huge populations will provide businessmen in the GCC with an opportunity to benefit from them and will enable the setting up of. large-scale industries in the region which will be more profitable and less costly.
The Role of the Tourism Sector on the Economic Integration Process:	The increasing role of this sector in the integration process provides it with an opportunity to play a positive role in strengthening the relationship between the people of the GCC countries and helps to overcome many social and economic barriers. But its role will not be an alternative to that of the other sectors in the integration process, but complementary
Speed of Economic Integration	Omani senior officials recognized the sluggishness in the GCC integration process, and they attributed it to the fact that the GCC countries during the last two decades have been kept busy with huge events like the Iraq-Iran war, which went on for more than eight years, and the Iraqi invasion of Kuwait in 1990. However, adopting further integration steps in the future will be easier than the previous stages, especially after the progress of the GCC countries in completing their legislative and industrial infrastructures.
The Protection of the Industrial Sector	The developing countries' experiments in resorting to a higher tariff as an instrument to protect their national products was a failed policy. Some GCC countries, like Saudi Arabia, adopted unilateral decisions contrary to the customs union principles, to impose high tariffs on imported goods, in order to protect their national products from external competition. However, a resolution issued later by the GCC Supreme Council gave Saudi Arabia an exemption to protect

	its products during this interim stage, which it was decided would continue for three years, ending in 2005.
Postponement of Some CU Issues:	Postponement of some CU crucial issues such as the common collection and distribution of the customs revenues and the role of the customs land borders, these issues were delayed as a result of the GCC countries' inability to reach final solutions during the inception stage. The interim stage is due to finish at the end of 2005. However, the GCC countries have not arrived at any solutions for these critical issues up till now. And no one knows whether the GCC countries will extend this stage during this short interim period or will manage to reach a final solution
Satisfaction about the GCC Achievements of the Omani Economy:	<p>Omani senior officials are satisfied with the customs union achievements, despite some difficulties facing its progress in the previous years; the CU is the only available choice for the GCC countries.</p> <p>If we compare the situation today with that before the founding of the customs union, it can be seen how the customs unions serve national products, which nowadays can move freely without customs tariffs or prior qualification.</p>
the Attitude to Bilateral Trade Agreements:	Such agreements, which are opposed to customs union principles and such treaties, should be negotiated collectively under the CU umbrella, and not individually. However, this problem could be overcome in the future by converting them into collective rather than bilateral agreements

6.9 Conclusion:

The purpose of this chapter has been to discover and analyse the perceptions of Omani businessmen towards the customs union among the GCC countries. A descriptive analysis of the sample of survey data is also discussed in order to provide the reader with useful statistics about the Omani businessmen's view towards economic integration among the GCC countries.

In general, the data analyzed in this chapter reveals positive attitudes among Omani businessmen towards the regional integration process of the GCC countries and their strong support for the formation of the customs union, despite their dissatisfaction with the existence of some tariff and non-tariff obstacles against the free movement of goods along the GCC borders.

In addition, there is dissatisfaction with the very slow implementation of the economic integration process, as the GCC countries have spent more than twenty years moving from the Free Trade Area stage to the Customs Union.

What is more, the data analysed reveals strong support from Omani businessmen for adopting further economic integration steps in the future, such as the GCC Common Market or GCC Monetary Union where the participant countries adopt a single currency, just like the European Union single currency.

CHAPTER SEVEN

DISCUSSION ON THE MAIN FIELD WORK FINDINGS

7.1 Introduction

The aim of this chapter is to discuss and evaluate the findings and the data that were collected from the quantitative and qualitative field study which were described in the previous chapter, in order to understand the implications of these results and the factors behind such attitudes as well as their effects on the GCC economic integration process and on the Omani national economy.

This chapter consists of five main sections: The first examines the impressions of Omani businessmen about the GCC economic integration process. The second discusses the CU effects on GCC intra-trade, and the third examines the CU effects on the Omani economy. The fifth section investigates the customs union effects on Omani exports to GCC Countries, and the sixth discusses the adoption of further economic integration steps among the GCC countries.

7.2 Perception of the Omani Businessmen about the Economic Integration Process:

Regional integration theories emphasise the role of governmental and non-governmental “elites” in the regional integration process and they link the success of any regional integration process to the interaction that occurs between the people and the private sector in this process, as well as the responses issuing from civil society institutions to this new entity. Therefore, the perception of the private sector about any economic integration process and attitudes to this process, generally show whether this process was successful in achieving its goals and whether it will be able to realize the aims of this community or not, especially in the distant future.

In fact as was made clear in chapter two, governmental and nongovernmental “elites” occupy a large space in neo-functionalists theory and they are regarded as the driving force for the regional integration process, especially if these elites start to harvest the fruits of integration. This then motivates them to put internal pressure on the national governments to adopt further economic steps towards integration with more power delegated to supra-national institutions that lead the regional integration process.

As Hass has stated “(Elites) are the leaders of all relevant political groups who habitually participate in the making of public decisions, whether as policy- makers in government, as lobbyists, or as spokesmen of political parties. They include the officials of trade associations, the spokesmen of organized labours, higher civil servants and active politicians” (Hass, 1958: 17).

The question that comes to mind is, to what extent Omani businessmen are satisfied or dissatisfied with the economic integration process among the GCC countries? Several measurements were included in the questionnaire conducted with Omani businessmen aimed at revealing their perception regarding the GCC integration process.

In general, the field study revealed that they are satisfied with the GCC achievements and they expressed a positive impression about the steps that were taken in the progress of GCC integration.

This positive attitude towards GCC regional integration may be partly attributed to the fact that the GCC integration process adopted the economic sector as a force driving for regional integration, unlike other Arab integration experiments, which concentrated on ideological, political and security dimensions, such issues were remote from the daily life problems of the Arab people and from the economic and social needs of their citizens.

Accordingly, the questionnaire given to the Omani businessmen revealed that the majority of them think that achievements in the economic field were the most successful in the GCC integration process, relegating the political, military and security fields to a minor role.

This positive impression could also be observed in the responses of the great majority of Omani businessmen, 76% of whom agree or strongly agree with the view that the move from the free trade area towards the customs union, was a useful step towards full GCC economic integration, but not enough.

Moreover, this positive impression persisted despite what the respondents said about the slowness of the integration process, and the obstacles that faced this experiment during its progress towards integration.

During the focus group interview, senior officials of the Sultanate of Oman revealed the conformity between the official point of view and the private sector about the GCC achievements. As one interviewee articulated:

“We are satisfied with the customs union achievements. Despite some difficulties which faced this progress in the previous years; the CU is the only available choice for the GCC countries.

If we compare the situation today with that prior to the establishment of the customs union, it can be seen how the customs union serves national products, which nowadays can move easily without customs tariffs. Also, under the CU rules, the need for prior qualification for national products in order to obtain exemption from customs duty is abolished”.

Another interviewee tried to interpret the conservative attitude of some people and businessmen towards the customs union. He stated: “maybe some businessmen or citizens can not see the customs union achievements at this time, because the CU still inhabits a transition stage, in which many important issues are postponed. But in the future, and as soon as the GCC countries finish with this stage, it will be easy for everyone to see and harvest the fruits of this economic integration process”.

A business visit is regarded as an important indicator and a crucial condition that should prevail within or among the political entities to be integrated.

As (Deusch, 1978:240) said: “the mutual relation of the units to one another, which can be indicated by the relative volume and weight of transactions among them, such as trade travel and mail and other communications” is important for any successful regional integration process.

As can be seen from table 6.5, the majority of the sample of “Omani businessmen” have made one or more visits to one or more GCC member countries (about 75% of the entire sample), while the other 25% did not make any business visit to any GCC Country .

This high percentage of Omani business visits to one or more GCC countries, reflects the strong economic relations between the people of the GCC and an increase in the mutual trade interests amongst the private sectors in the participant countries.

This indicator of the high percentage of Omani business trips to GCC countries should be taken with caution and cannot be easily generalized to apply to all GCC businessmen because of the special and historical relationship between the United Arab Emirates and the Sultanate of Oman. In addition, the Dubai Emirate acts as a regional trade entrepôt, to which many businessmen and people from all over the world come to visit, either for tourism or for business purposes.

Thus, the reader can well understand the reasons that motivated the researcher (See chapter Six) to distinguish one visit to one country from many visits (see table 6.5.1 and table 6.5.2). In fact, the researcher tried to differentiate between those Omani businessmen who used to visit Dubai regularly because they were engaged in a strong

traditional trade relationship with the United Arab Emirates, especially Dubai, and those from the other GCC countries where trading came about and developed as a result of the establishment of the GCC.

In any case, the number of Omani businessmen who visited the U.A.E once or more was 61, representing about 37% of the entire sample. This means, on the other hand, that there was a high percentage of businessmen enjoying good contacts with all the other GCC countries.

The attitude towards various economic integration elements which were adopted within the GCC economic integration process was another criterion used in this study.

According to Omani businessmen, the setting up of the customs union was the most important step adopted towards integration amongst the GCC Countries. This element existed before the exemption of national products from the customs tariff, the free movement of GCC citizens with ID cards instead of passports and the adopting of the GCC single currency.

It is thought that this result reflects two realities:

First of all, the strong support of Omani businessmen for the creation of the customs union and the real desire to adopt further economic integration steps. Secondly, it reflects their high interest in integration in fields related to the goods sector, and helps to ensure the free movement of their goods throughout the GCC countries, especially, since the GCC market has become the only available space for Omani businessmen to market their products for the foreseeable future.

In fact, businessmen in the Sultanate of Oman started a long time ago to create a viable study for their economic projects in GCC market situations, (which include more than thirty million with a high per capita income), rather than in the domestic market, which could easily be classified as very limited and they could not ignore the large-scale products that play a major role in reducing the cost of production and maximizing the producers' profits.

As Jovanovic pointed out, (See chapter two) a return to scale refers to "the relationship between input requirements and output response with its impacts on costs". Thus, the

forming of a customs union can increase the size of the markets available to firms working within the union. Consequently, these companies will be able to raise their production level and in so doing realize economies of scale, which are defined as “a reduction in the per-unit costs of production as output increases. As a result, the productive efficiency of the firm will increase”. (Hodgson and Herander, 1983:285).

This strong linkage between the Omani economy and those of the GCC countries was clearly revealed when the majority of Omani businessmen agreed or strongly agreed with the idea that Omani exports are affected positively by an improvement in the economic situations in the region, as a result of higher oil prices.

This result indicates the extent of the GCC economic integration process to create mutual relations between the member states and how this wide network of economic relations became actual to such a degree that any positive or negative changes in the economic situation of any GCC state has a similar effect in the economies of the other GCC countries.

Nevertheless, the satisfaction amongst Omani businessmen and senior officials about the GCC achievements was not actually embodied in the institutions of the GCC regional integration process nor in that of the GCC decision-making to the degree where the people and the “elites” in these countries shifted their loyalty from the nation state to the supranational institutions, as is supposed to happen with both the transactionalist and neo-functional approach, for economic integration to achieve its goal. As Hass stated:

“The political community, therefore, is a condition in which specific groups and individuals show more loyalty to their central political institutions than to any other political authority, in a specific period of time and in a definable geographic space”(Hass, 1958: 5).

In other words, Hass emphasizes the role of “elites” in order to ensure that the economic integration process produces its fruits, and to ensure success for the integration process, thus, he argues that:

“Political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over the pre-existing national states” (Hass, 1958: 16).

In my opinion, there are two reasons which obstruct GCC people and elites, and help to limit the level of loyalty to the regional integration institutions in the GCC:

First of all, the absence or the weaknesses of the civil society institutions even at state level itself. For instance, that GCC countries- as they are known- up to the present, do not allow political parties, trades union or other civil society institutions to organize themselves or participate in any political or economic activity at state level.

This situation could also be attributed to the fact that the creators of the GCC wanted to keep the role of the regional integration institutions limited and under the control of the member states, far from any direct effects of civil society institutions, and they did not want to expand the role of the elites and the people to be part of the regional institutions.

This desire can easily be observed by reading the GCC charter, which allows the GCC secretary general and his assistants very limited functions, and restricts the GCC general secretariat's role to that of organizing the meetings and carrying out some limited functions.

This fear of maximizing the role of the GCC institutions, and active participation by the public in this integration process, might be understood if it were known that most GCC countries are relatively modern independent states, three of which: the UAE, Qatar and Bahrain, obtained their independence only in 1970. So the sovereignty factor played a role in determining the function of the GCC institutions in this situation.

7.3 CU Effects on GCC intra-trade:

In later years, non-tariff barriers played an increasingly major but largely negative role in trade. When World Trade Organization rules are strict about tariffs, they achieve

considerable success in limiting their role in hindering international trade. Their rules regarding NTBs have not been so strict. Despite the WTO's objections to NTBs in principle, countries have continued to use them. In some instances, because of the increased scrutiny of tariffs, the use of NTBs has increased. NTBs are difficult to detect and measure and for that reason they have been recently used instead of tariffs, which are quantifiable and highly visible (Economic Integration Program project, 2000).

In GCC countries, despite the efforts that are exerted to ensure the free movement of goods amongst the member states, national products still suffer from obstacles to the free flow of goods, even after the inception of the customs union.

GCC exports have suffered from several challenges which have led to instability in their growth rate, and subjected them to market fluctuations. These fluctuations in GCC intra- exports could be occasioned by several factors:

Some of these obstacles are related to external factors, like the economic recession in the industrial countries, the decline of public demand or the changes in the price of international currencies in comparison with those of the GCC.

Also, there are some factors relevant to the internal factors in GCC countries, such as those related to the trade policies implemented there compared with the same policies in the markets of the industrial countries.

Furthermore, as a result of the strong competition usually associated with an open market policy, the decrease in domestic demand for GCC products due to the strong competition from the products of developed countries was a major reason, either directly or indirectly, behind this fluctuation in GCC countries exports.

Finally, there are some factors which play a role in GCC product fluctuations, related to the lack of future marketing policies, like forward contracts and other practices that play a role in maintaining the balance between production and the marketing phenomenon. Moreover, the GCC companies and their economic and industrial sectors have not enough experience in this area as industrial countries.

In addition to the difference in production costs in GCC countries, in comparison with European countries, there is clear evidence of the inability of GCC products to keep up

with the changes in price elasticity and the change in marketing environment. (Al-Khraiji,1996).

A careful examination of these obstacles shows that most of them can be attributed to non-tariff barriers and these not only threaten the free movement of GCC intra -trade but also constitute an international phenomenon and several countries in the world resort to them in order to protect their national products from external competition. This practice threatens the WTO's efforts to abolish all discriminative procedures and eliminate all tariff and non-tariff barriers.

(Swann) warns of the negative role of such measures which lead to a distortion of trade between the regional integration members. He points out that internal "trade between the partners must not be prevented or distorted by state subsidies, anti-competitive business practices, domestic fiscal arrangements, discriminatory public purchasing, the imposition by the state or other bodies of standards which effectively exclude imports, border controls and administrative process, and so forth. The removal of such barriers poses major problems". (Swann, 1996:4).

In fact, GCC countries which won to remove tariff barriers by abolishing the customs tariffs imposed on GCC national products, and adopt common external tariffs on imported goods from the outside world, found that the free flow of goods still faced barriers because of procedures imposed by some member states, such as the protection of the sole local agent, which are strictly applied in the UAE, and partially in other GCC countries.

In addition, there are some safety and health procedures that are applied in some GCC countries, together with the multi-time inspection process, whereby GCC products are subjected to as many as three inspections, during their journey from one country to another, which can cause damage and delay to the imported goods.

The questionnaire that was conducted with Omani businessmen revealed a strong opinion about the existence of these barriers in GCC countries, even after the establishment of the GCC customs union and the great majority of Omani businessmen (about 84% of the sample) think that there are still some impediments to GCC intra

trade.

In fact, the continuation of these non-tariff barriers negatively affects GCC intra-trade, and is opposed to customs union principles. As discussed in chapter two, Hass strongly stresses the importance of the free movement of goods and the need to abolish all tariff and non-tariff barriers, to enable regional integration to bear fruit.

Therefore, he is determined that specific characteristics should prevail amongst the member states so that such economic integration is regarded as an aspect of community evolution (Hass, 1958: 12):

- 1- Agreement for complete though gradual removal of tariffs, quotas and exchange controls among the member states.
- 2-A member state should abandon its right to restore trade restrictions on a unilateral basis for the duration of the agreement, regardless of the difficulties that may rise or that a member state may face.
- 3-The member states should engage in joint action to deal with the problems resulting from the removal of trade barriers and to ensure the best utilization of the available resources in the area.
- 4- Some degree of harmonization of national policies, especially those policies affecting price structures and the distribution of resources among the member states (for instance, social security and agriculture programmes), in addition to the fiscal and monetary policies.
- 5- A free movement of labour and capital in the area.

In fact, NTBs pose a big challenge to GCC countries, and the success of the customs union will greatly depend on the ability of these countries to overcome these impediments, which threaten the future of any regional integration process.

Not surprisingly, several economists and regional integration theorists have concentrated on this issue by distinguishing between shallow and deep integration, formal and non-formal integration or positive and negative integration, like what was discussed in chapters two and three of this research.

Wallace for example, distinguished between shallow integration which refers to the abolition of barriers to trade between national economies, and deep integration which refers to the adopting of common policies and standards, so as to abolish non-tariff obstacles to trade within a single market. He thinks that in Europe the shifting from shallow to deep integration made the integrated institutions play a role in political affairs, varying from environmental to social issues, company law, cross-border crime, the role of the public and private sectors and the supply and funding of public goods (Wallace, 1994:6).

7.3.1 Difference in Trade Impediments amongst the GCC Countries:

The field study with the Omani businessmen revealed that the majority of them (81% of the whole sample), think that the impediments facing GCC intra trade are different from one country to another, and they specified the United Arab Emirates as the country which has the least trade impediments amongst the GCC countries.

This result comes despite the fact that the United Arab Emirates have the strictest law amongst the GCC member states, protecting the sole local agent. According to this law, it is not allowed to import any goods, like cars or electrical devices or those that have a trade mark- to the UAE market except through the local agent or after obtaining a permission from him.

The USA, during its recent negotiations with the United Arab Emirates to establish a free trade area between the two countries, stipulated that the UAE should abolish this law as a condition for signing a free trade area agreement with it.

In fact, nowadays there are serious attempts in the UAE to amend this law which is regarded as being contrary to GCC customs union principles and WTO free trade values.

On the other hand, Saudi Arabia was classified by more than 83% of the Omani businessmen as the country which has the most serious trade impediments.

The head of Customs department in Kuwait shares the Omani businessmen's point of view on this. Thus, he claims that Saudi Arabia has the most restrictive procedures in terms of non-tariff barriers. For example, "Saudi Arabia does not permit refrigerated and tanker trucks to cross the border into that country. He considers that such restrictions were simply to keep out foreign products so they did not compete with its national products". (Abdullah,1991:337).

An interview with Omani senior officials highlighted these obstacles and revealed the existence of the impediments facing GCC intra-trade.

One official interviewee proposed a number of factors behind the continuation of these non-tariff barriers. He maintained that despite the achievements in GCC intra-trade sector:

"we should not forget that the intra-trade is still facing some obstacles because of the variation in implementing the customs union procedures between the member states, and because of that the member states have not yet reached a final decision on some crucial issues of the customs union, such as the future of the customs land borders between the member states which subject the GCC goods to a dual procedure in their movement between the GCC countries".

In the interview, another senior official tried to interpret the rest of the customs obstacles by focusing on the existence of three types of fear among some of the member states:

"The first is the security factor, where some GCC countries are vulnerable to drug gangs because of their prosperity and riches, in addition to the terrorist groups that threaten the stability of some of the member states.

The second factor is based on the fact that some countries are keen on ensuring that only GCC national products benefit from customs union advantages and do not want to allow the products of non-CU members to benefit from these facilities by exporting their products under GCC labels.

The last factor behind these customs procedures may be understood from the feelings that exist among some GCC countries that have a

huge market, such as Saudi Arabia, which represents almost 70% of the entire GCC market. This situation generates the belief in that country that it will be subject to an economic invasion of products from other GCC and non-GCC countries, so it tries to retain certain procedures in order to protect its national economy”

Another interviewee attributes the remaining customs obstacles on the GCC borders to:

“The failure of these countries to adopt a suitable collective formula to collect and distribute the customs revenues among the GCC states as well as the European Union Countries. This was a major reason behind the continuation of these obstacles even after the inception of the GCC customs union. Therefore, every country tries to carefully inspect the goods that are imported to its market in order to ensure a large share of the customs union revenue later”.

In any case, the existence of a series of obstacles, especially during the customs union transitional period, should not lead to a downgrading or minimizing of the achievements of the GCC intra-trade during the last two decades. In fact, in every integration experiment, it will be subject to several such challenges, especially in the first stages of the economic integration process. Moreover, GCC countries in their first integration experiment encountered such obstacles during the introduction of the free trade area in 1982, but later, through discussing them collectively, they found satisfactory solutions for overcoming these obstacles.

Therefore, unsurprisingly, the majority of Omani businessmen (i.e. over 72% of the sample) believe that the setting up of the customs union among the GCC countries will help to eliminate all the obstacles hindering intra-trade between the GCC Countries. In addition, over 78% of the sample expects that the volume of intra-trade among these countries will increase rapidly, following the creation of the customs union. These positive expectations have come despite the existence of several current obstacles to intra-trade, about which Omani businessmen and Omani senior officials have articulated their views.

Mr Mohammad Obaid Al-Mazroai, the GCC General Assistant Secretary for Economic Affairs, declared that the General Secretariat received only 60 complaints during the first year since the customs union inception. And he ascribed most of these obstacles facing the free movement of goods amongst the GCC countries after the inception of the customs union to the fact that the customs departments' employees are not familiar with the new customs union procedures. It is imperative that these employees become used to the old regulations, which were implemented in the GCC countries, instead of depending on the GCC common customs law. In addition, some GCC counties delayed publishing the proper instructions relevant to the customs union, and the ambiguousness of these instructions, which were issued to the customs departments (www.alnabaa.org).

7.3.2 Similarity of GCC National Products:

The similarity between GCC economies poses a big question mark about the benefit that GCC countries may gain from introducing economic integration amongst themselves because the member states produce similar national products, most of them consisting of petrochemical products and food stuffs.

As is made clear in Chapter 3, the classical international trade theories focus on this point. The variety of natural endowments and advantages of specialization (the division of labour) were the original elements that were used to justify economic liberalization. (Milnes) thinks that men like states, are not qualified to produce the same things.

Moreover, even if there is no such verification of natural endowments – according to classical international trade - it would still be beneficial to specialize in particular activities because of the “ economies made possible by the division of labour ” so everyone and every country should specialize in the activity in which it has a comparative advantage (Milnes1976, P: 12).

Jacob Viner stated in his book *The Customs Union Issue*: “In the literature on the customs union, it is almost invariably taken for granted that rivalry is a disadvantage and complementarily is an advantage in the formation of the customs union” (Balassa, 1965:27-8).

But, Viner in his book, *The Customs Union Issue*, did not agree with these ideas and he reached different conclusions. He thinks that the less the degree of complementarity- or the greater the degree of competition- of the participant countries with respect to protected industries prior to customs union, the greater benefit from the customs union (*Ibid*).

He argues that support for union between complementary economies was adopted by both free traders and protectionists but for opposite reasons. According to Balassa (as pointed out in Chapter Three), protectionists look upon complementarity between the union members as an assurance that the establishment of the union would create the possibility for autarkic economic policies. Whereas, free traders regarded participation in a complementary union as beneficial, on the basis that it gave promises of larger savings in costs, since cost differences between complementary economies were greater than between rival countries (Balassa, 1965:30).

In fact, this argument is proposed by some classical international trade theorists concerning the advantages of establishing a customs union between competitive economies, like the customs union which was set up by the GCC countries. These theories encountered several challenges on the grounds of reality. For example, it can be observed that the largest volume of international trade is among the competitive economies themselves, not the complementary ones. So that in statistical language over 70% of international trade takes place among the industrial countries themselves, especially the USA, Japan and the European Community.

In other word, the highest percentage of international trade is not between the industrial countries and agricultural countries, as some classical international trade theories claim.

Thus, the technology gap theory was one of those that was formulated to overcome these shortcomings in classical international trade and to introduce a scientific and realistic interpretation for the evolution of that trade.

As Hodgson and Herander pointed out in chapter three of this research, because technology is not equally accessible and available to all nations, "technology gaps"

emerge so that the most advanced technology is concentrated in relatively few countries. "Not surprisingly these countries tend to develop strong comparative advantage in high- technology goods. The comparative advantage in lower technology items may pass to countries further behind in the development process". (Hodgson and Herander, 1983:62).

This emphasis on the role of technology in international trade, has led to the evolution of new theories, such as the Product Life Cycle Theory, which was advanced by Raymond Vernon. This theory "examines the trade patterns that evolve from the time a new product is introduced by a particular country to the time when the technology required for its production is available on a worldwide basis" (*Ibid*).

According to Vernon, a newly developed product should pass through several stages; each of them has its effect on the pattern of trade. These stages are: the new product stage, the maturing product stage and the standardized product stage (*Ibid*).

Anyhow, according to the field study with Omani businessmen, the majority of the respondents think that the similarity between the GCC national products inhibits GCC intra-trade. This similarity in national products came about as a result of the nature of GCC economic structures, where member states highly depend on oil and the petrochemical products as the main source of national income. And oil drilling is the major sector that gives rise to the other economic sectors.

Also, this similarity could be partly attributed to the absence of a real common industrial policy amongst the GCC countries as well as the lack of harmonization. Sometimes, even at state level itself, there is no clear industrial policy towards the goods that the region has a comparative advantage in producing, or the ability of these local markets to absorb these products, especially in the long run.

An interview with some senior Omani officials revealed certain facts about the similarity between GCC national products, which is not far from the private sector view. Senior Omani officials think that there is a marked similarity between GCC national products and this similarity stands as an obstacle to the rapid growth of GCC intra – trade. As one official put it:

“No doubt there is a similarity between many GCC products, especially in the chemical products and the food stuffs sectors. But we should not forget that many chemical products are designed and made for exporting to the international market not for the GCC market only”.

One senior official added:

“In fact, the GCC countries adopted a common industrial strategy, which includes common policies and one of its principles has come to put an end to this similarity in these industries. But this strategy is still voluntary and not obligatory”.

7.3.3 Role of CU Principles in Developing Intra-Trade:

As can be seen from table 6.15, the majority of respondents (almost 32% of the entire sample) regard the free movement of goods among the Gulf States without customs or non-customs restrictions, as a very important step that will play a positive role in improving intra-trade among the GCC countries. On the other hand, the adopting of a common external tariff, which can be regarded as the most important feature of the customs union, was viewed as such by only 8% of the respondents

In my opinion, this result came about as a reaction by the businessmen against the external common customs tariff, adopted by the GCC customs union against imported goods, which was lower than what was implemented in some GCC countries before the establishment the GCC customs union. For example, before that time, Omani national products enjoyed protection in the Saudi Arabian market through the imposing of a 12% customs tariff on the goods that were imported from foreign countries. While under the customs union umbrella, they lost this advantage after the GCC countries decided to impose only a 5% common external tariff on the imported goods from other countries.

This issue was discussed with Omani senior officials when the researcher questioned them about it. It should be noted that the customs union gives no special attention to the industrial sector, especially by adopting a low single tariff (not exceeding 5%). This situation has forced states like Saudi Arabia to impose –unilaterally- a high tariff on some imported goods in order to protect its industries from what it regarded as unfair

competition from the those of developed countries. Has any solution been reached to tackle this situation?

The Omani senior officials recognise this problem and they defend the GCC countries policy in adopting a low tariff against the imported goods as follows:

“Referring to the developing countries experiments in resorting to a higher tariff as an instrument to protect their national products, this policy was a failed policy. And in many third world countries experiments did not help to create an efficient industrial base. Consequently, our policy in the GCC countries was against this course. Because previous experiments taught us that the protection of industry through imposing a high tariff did not benefit these products but affected these industries negatively, by preventing the manufacturers from improving their industries or developing their products”.

In fact, this low external common tariff which was adopted by the GCC customs union, forced some GCC countries to make unilateral decisions, contrary to customs union principles, like Saudi Arabia which decided to impose a high tariff against imported goods in order to protect its national products from external competition.

An Omani official interviewee explained this issue:

“Regarding the Saudi Arabian decision to protect its national products, an order was issued later by the Supreme Council granting the Saudi government an exemption to protect its products during this transitional stage. This will continue-as it was decided according to the customs union inception agreement- for three years, ending in 2005”.

However, in my opinion, the legalization resulting from these one-sided decisions is another problem in the progress of GCC economic integration, and may lead to a distortion in trade amongst the GCC countries, in favour of those that impose a low tariff unless they begin to formulate a common policy to find a suitable solution for the challenges facing the industrial sector, not only in Saudi Arabia but in all of the GCC countries.

For instance, by an amendment in the external common tariff structure, to include other tariff rates so as to take care of the industrial sector needs. Such amendment should include two parallel steps: first, the imposing of a higher tariff - at levels that do not exceed the WTO rules after all the GCC countries have become members of this international organization - on foreign products that constitute strong competition for national products.

Second, by classifying the raw materials, which are regarded as inputs for the industry, and which can not be consumed directly unless some manufacturing process is made for them, by organising them within the free duty goods category, in order to avoid any probability of issuing any individual decision later to exempt these goods or using them for industrial purposes.

In my opinion, adopting these two steps will help to overcome the differences amongst the member states, which appeared as a result of adopting a single common tariff and which left GCC national products in unfair competition with the developed countries' products, thus forcing some GCC countries to impose a one-sided high tariff, in order to protect their national products from external competition.

Therefore, adopting different levels of tariff will help to provide a suitable solution for this disagreement, which was prompted by the adopting of a unified single tariff of 5% only for wholly imported goods, regardless of the reason for their importation, whether for industrial or for final consumption purposes.

In addition, most industries in GCC countries - like their counterparts in the third world are classified as infant industries and need some support, especially during their initial stages, in order to help their industries to compete with the products of developed countries.

7.4 CU Effects on the Omani Economy:

This section will be divided into two parts. The first will be dedicated to examining the factors behind Omani businessmen's preferring to import from GCC countries, and the obstacles facing them while importing from those same countries. This part will also examine the factors behind Omani businessmen's decision to import their goods

indirectly through neighbouring GCC ports rather than directly through Omani ports. And the last subsection will examine the future of the tourist sector in the GCC economic integration process.

The second part will examine the obstacles facing Omani exports to GCC countries and the role of the customs union in removing these obstacles.

7.4.1 Factors behind intensive Importing from GCC Countries:

During recent decades, the Sultanate of Oman has suffered from a deficit in its balance of trade with some GCC countries whereby the volume of imports has always been in favour of the United Arab Emirates, especially Dubai, which became an international trade centre for the region.

In fact, the problem of Omani trade relationship with some GCC countries, especially with the UAE, can not be summarized simply as a deficit in balance of trade, because it is common in all international trade relations, for the balance of trade to tend to be in favour of one part or another and not necessarily to be always equal in every aspect of the economic field.

But the consequences of this unbalanced trade relationship have several dimensions and have various side effects on the Omani national economy beyond what can be seen at first glance.

In fact, the seriousness of this imbalance with the UAE becomes more complicated if it is considered from the viewpoint of its effects on the local market trade of Oman, where the Omani people, even for the purposes of personal consumption, ignore the local market and travel to Dubai in order to do the weekend shopping or to buy for their daily needs. In this, they are motivated by the ease of transport, with motorways linking their cities to the UAE and by their proximity to the Dubai Emirate.

On other words, some Omnis look on the Dubai market as a local market and leave the Omani internal market to suffer from depression and inactivity.

Furthermore, this unbalanced trade relation is clearly reflected in the trade activity in Omani ports where the local businessmen prefer to import their goods through Dubai rather than directly through Omani ports.

These two significant consequences pose big challenges for both the private and the public sector in the Sultanate of Oman. These have been discussed intensively on different occasions by several committees in an attempt to overcome this problem, which is regarded as unique in GCC trade relationships, since it does not hold amongst the other GCC neighbouring countries, such as in Omani-UAE trade relations. For instance, it would be impossible to find a situation like this in Kuwait's relations with Saudi Arabia or with the Qatar-Bahrain trade relationship.

The field study with the Omani businessmen revealed that the majority of them prefer not to ascribe the phenomenon of importing from the markets of GCC neighbouring countries to one factor. Thus, about 36% of the sample chose all the above-mentioned factors as reasons for importing from other GCC neighbouring countries and they preferred not to assign it to a single factor amongst those which were determined in the questionnaire, which include:

1. The huge size of neighbouring markets, which provide the buyer with different types of goods varying in quality and price.
2. Lack of information about the international markets,
3. The ease of mutual understanding and payment facilities,
4. And the absence of customs border points with these neighbouring countries.

According to the field study, 29% of the sample think that the low price of goods which prevails in the Dubai market was the reason for purchasing from the UAE.

In my opinion, this impression about the low price in the UAE market came as a result of several factors:

First of all, the low tariffs which were applied in the UAE prior to the establishment of the customs union, in addition to the long list of duty-free goods, which include a wide range of goods, such as foodstuffs and building materials, which were exempted from the customs tariff. This situation helped in part to generate a gap in price between the market of the Sultanate of Oman market and that of the UAE.

However, despite the fact that GCC countries' adopted a unified single tariff not exceeding 5% of the goods value, the impression of Dubai as a free-tax country still existed in the minds and thinking of the Omani people.

In fact, this low customs tariff, which was adopted as a common tariff in the GCC customs union, came as the result of hard negotiations between the GCC countries and it was adopted as a mid-way solution between the UAE's attitude, which preferred to adopt a very low customs tariff, and that of the other GCC countries, especially Saudi Arabia and Bahrain, which favoured adopting a high customs tariff.

Second factor behind the low prices in the Dubai market results from its huge size, where businessmen can obtain especially low prices from the main producers and exporters. This is known in the business world as a quantitative price cut. Conversely, Omani businessmen can not get cut prices because of the limitations in the quantity of what is imported for the local market.

This result demonstrates that this problem is complicated and has several dimensions, so the efforts exerted by the Omani government to control it either through reducing the customs tariff or by adopting a unified single tariff within the GCC customs union will not show results unless it is associated with other structural economic reforms in the Omani national economy itself. The size of the Omani market is very limited in comparison to that of the UAE, and the Omani market is still regarded as a closed market, designed to respond to the internal needs of just two million people, whereas Dubai is an open market and what is imported is not for domestic consumption but for Middle East market needs and in some cases for those of other markets, like East Asia or the ex-Soviet Union republics, as well as East Africa..

Omani senior officials have highlighted another factor behind some Omanis preferring to import from the Dubai market, namely, the historical factor. When the researcher asked them this question: From your point of view, what factors are behind Omani businessmen preferring to import from neighbouring countries, especially "Dubai"?

The Omani senior official replied:

“The historical factor has played a major role in this phenomenon, as the Omani people are accustomed to importing from Dubai for a long time. There is also the low price, which exists as a result of wholesale and quantity discount. In addition, there is the low customs tariff which was implemented in the UAE before the creation of the customs union, and the facilities in the Dubai ports”.

In addition to other considerations, Professor Rodney Wilson stresses this historical factor which enables Dubai to play a central commercial role in the region. He states:

“It was Dubai’s creek, the best natural harbour in the Gulf, that accounted for the Sheikdom’s economic growth and prosperity for hundreds of years as a crossroads for Gulf trade.....The duty –free zone at Jebel Ali, which was established in 1985, has become by far the largest and most successful in the Middle East, with over 600 international companies operating distribution and processing facilities. As a consequence, Dubai has become for West Asia what Singapore is for South East Asia. International companies can take advantage of Dubai’s position in the GCC to ensure there is tariff-free, or reduced tariff, access to other member states, including Saudi Arabia. To qualify there must be 40% GCC value added, but this figure can be based on redistribution margins to cover wage costs in both Dubai and the ultimate export destination” (Wilson, 2001: 153).

However, another interviewee attributes this phenomenon to Omani internal factors, such as:

“the sole agent law which was implemented strictly in the Sultanate during the seventies and eighties before the government cancelled it. As a result of this law, the commercial agent exploits this law to control the local market and impose the price that he wishes. This situation has motivated some businessmen to look for alternatives to the Dubai market.

In addition, the diversification of goods in Dubai which responds to different levels of consumers’ desires and abilities; was a strong reason behind the Omani people importing and purchasing from the Dubai market”.

Another interviewee added: “in fact this phenomenon is usually confined to small importers, whereas high-level businessmen import their goods directly from the point of origin and through Sultan Qaboos port”.

The absence of a customs border between the UAE and the Sultanate of Oman on the UAE side was another factor behind this intensive importing from the UAE according to the Omani businessmen’s point of view. This situation is also regarded as unique since it does not exist between any other pairs of GCC adjoining countries.

To be more accurate in describing this state of affairs, there is no customs land border on the UAE side, whereas one does exist on the Omani border side. In fact, this situation encourages many Omani businessmen and individuals to move freely without any customs barriers and it facilitates the movement of people and goods to the UAE without any obstacles.

What is more, the ease of Omani border customs formalities, compared with those in the sea ports and airports, encourages many Omanis to import from neighbouring GCC countries. Over 60% of Omani businessmen agree with this idea.

According to the researcher’s experiments in this field, which have extended over more than twenty years, there are several reasons for this difference in customs formalities between the ports and the land borders: first of all, the goods which are imported through a port or airport usually adhere strictly to international criteria for importation and are normally accompanied by standard documentation and procedures that are very common in international ports. The importers are required to present these documents before making a customs declaration, whereas the goods that are imported from the local market in Dubai are usually accompanied by a purchasing invoice only. This is normally written by hand, sometimes in the native language of the seller (Aordo or Persian). The customs officers have difficulty even to read the details of these invoices.

Moreover, in many cases these invoices do not reflect the actual price of the goods. On many occasions the buyer is provided with two invoices, one including the actual price of the items and the other for customs purposes, which shows a very low price and does not reflect the true value of the goods. This forces the customs staff to re-evaluate it as there are no scientific criteria for this assessment.

Furthermore, goods that are imported through an Omani port or airport should be assessed according to the international criterion for costs of goods, which is known as the CIF value. This includes the cost of the goods + insurance costs + freight costs. On the other hand, goods that are imported across border land from the UAE are, unfortunately, usually valued according to the cost of the goods only, without the costs of insurance or freight.

What is more, the declaration on the Omani customs border is not performed through a customs declaration agent but through the importer directly or even by the driver of the truck himself because no customs declaration office exists there at all.

These differences in procedures between Omani ports and the border outlets encourages many Omani businessmen to import from the UAE and avoid the Omani ports and airports, and this has negatively affected the trade movement of these important public utilities.

Furthermore, in my opinion Omani trade policy - whether they realize it or not- has added to this problem and played a part in encouraging many Omanis to import from Dubai rather than purchase from the local market, by issuing documentation that allowed Omani people to import from Dubai for personal reasons without paying any customs tariff for goods costing up to 1300 \$ and this was in the 1970s (and still is) a considerable amount.

As a result, many Omani people exploit these facilities, by travelling to Dubai several times a month, and importing goods for different uses under the personal purposes scheme in order to avoid paying a customs tariff. In other words, those buying from the Omani internal market pay a customs tariff and those buying from neighbouring countries are exempted from paying

However, the future of the customs land borders and their role, following the setting up of the customs union, is under intense scrutiny and there is a strong demand from many GCC countries to abolish them totally so as to ensure free movement of goods between the customs union members without any obstacles or impediments, especially after the GCC countries have agreed to adopt unified common customs laws and a common

external tariff on outside goods. Theoretically, all the customs formalities should be unified and all customs procedures in every GCC outlet should be the same.

So, not surprisingly, according to the field study, the majority of Omani businessmen think that adopting a common customs law will remove the diversity in customs procedures between the GCC countries and will encourage Omani businessmen to import directly through Omani ports.

In my opinion, even if the GCC countries adopt a single customs law, the procedures for implementing it will continue to be different. For example, the percentage of goods that are subject to inspection has reached 100% in Saudi Arabia and Kuwait. In other words, every imported item should be subject to inspection procedures in these two countries. On the other hand, the Sultanate of Oman and the UAE have adopted the random sample rules in inspecting goods, which usually does not exceed 5% of those that are imported.

This variation in procedures, if not addressed collectively under the GCC umbrella, may lead to a trade diversion in favour of the countries that have less customs formalities, especially Dubai which is famous for its facilities in this field, as well as for implementing a highly-developed declaration system and for enjoying a flexibility in customs clearance which is not available in other GCC countries.

7.4.2 Reasons behind Importing through GCC ports:

For several decades, the ports in the Sultanate of Oman suffered from very high competition from the ports of some GCC countries, especially Dubai. As a result, some Omani businessmen have withheld to import their goods directly through the Sultan Qaboos and other Omani ports, but prefer to import their goods indirectly through Dubai.

This phenomenon continues despite the Omani government's efforts to overcome the problem so as to put an end to this unjust competition which threatens the role of this important public utility.

The survey with Omani businessmen revealed that the majority of them (about 60% of the whole sample) are averse to ascribing this phenomenon to one specific factor and prefer to attribute it to several factors. These were mentioned in the survey as a reason for preferring to import their goods indirectly through the Dubai ports.

These factors include: the high cost of shipment and insurance to Omani ports in contrast to neighbouring ports, the high charges in Omani ports (such as the tax for landing and handling). In addition, the period for which the declaration is free of charges is too short. There is also a lack of warehouses in the ports, an absence of regular shipping between the Sultanate ports and the rest of the world, and the difficulties with the customs declaration procedures in Omani ports, in comparison with neighbouring countries.

In fact, as will be made clear later in this discussion, the preference for importing through Dubai is not just related directly to the services that are offered or fees that are collected in Sultan Qaboos port or in the Dubai ports. The problem goes beyond that, and has several dimensions. Part of it related to the Omani economic structure itself and the trade policy that has been adopted in this country.

The limitations of the Sultanate's domestic market and the absence of an open door policy in the re-export trade has been a major reason for this weakness in the performance of Omani ports.

In an interview, one of the Omani businessmen, I believe, put his finger on the problem, and summarized the way to diagnose this issue. When the researcher asked him why he did not import his goods directly from the source country through the Sultan Qaboos port but through the Dubai ports, the businessman replied:

“How can I import my goods directly from the country of origin to Oman directly in the absence of regular shipping between the Sultanate ports and the world. For example, if the vessel is carrying eight hundred containers, how can it be imagined that it will change its course to Oman in order to bring seven containers for me in Sultan Qaboos port. In fact, changing the direction of the ships is not as easy as it is imagined. It costs a lot, especially insurance, to cover the new direction of the vessel and its cargo to Sultan Qaboos port. It is not easy for the ship to change course and pay higher insurance for

the entire shipment plus the vessel, simply to bring a small quantity of goods to Sultan Qaboos port.”

The second factor is the lack and sometimes the absence of a single initiative among both the Omani private and public sectors, to invest and take advantage of historical opportunities that have existed or have sometimes been offered in the last two decades, as a result of the three wars that the Gulf region has experienced.

For example, when the international insurance companies decided to consider the Gulf area as a war region and increased the insurance tax rate by 100%, no one from the Omani side had the initiative to seize this historical opportunity and offer the Omani ports as an attractive substitute for Dubai or other GCC ports,

The Omani ports- as they are known- are geographically outside the Gulf and were far from the war zone, especially during the war period which was known as the War of Tankers, when both Iraq and Iran deliberately attacked vessels in the Gulf and some GCC countries were forced to raise the flags of some grand or super-power countries, in order to ensure protection for their ships, unlike the Kingdom of Jordan, for example, which exploited its location and these unstable situations well, when it introduced the port of Al-Aqba as the most important link between Iraq and the outside world and all the Iraqi imports and exports flowed through it.

Neither did the Sultanate of Oman begin earlier to create free-trade zones in its ports as Dubai did, when it established the Jabal Ali Free Zone Area in the early seventies, which later became a major area of attraction for business and industrial investments in the region for many international companies from around the world.

Omani senior officials recognise that the ports in the sultanate suffering from intense competition from those of the UAE, especially Dubai and they offered several interpretations for this phenomenon during the focus group interview which was conducted with them. They think that:

“Some factors behind this phenomenon existed before the establishment of the customs union, such as the low customs tariff and the ease of the customs procedures. Some of these factors still exist and will not be removed within a short

time. One is the availability of more services in the Dubai ports, like the abundance of warehouses and the ease of declaration in these ports.

Furthermore, the volume of imports to the Dubai ports is bigger than Sultan Qaboos port; because Dubai depends on re-export activity to several countries both within and outside the region. This situation has led to a reduction in the cost of the cargo which is imported through Dubai”.

Another interviewee added “Regarding the port fees, two years ago the port services institution studied this issue deeply and many official institutions participated, such the Ministry of Transport and Communication, the Ministry of Commerce and Industry, in addition to the Sultan Qaboos port. This study was conducted with the assistance of an overseas adviser in order to evaluate and discuss this issue.

The advisor carried out a comparative study of the Sultan Qaboos Port and the Dubai ports. This abstract revealed that the fees in Sultan Qaboos port were almost equal to those collected in Dubai, but the problem was the size of the market, since Dubai was highly dependant on the re-export trade. In addition, some facilities which were available there were not available here in the Sultanate”.

One interviewee added another reason: “Some Omani ports impose specifications about the type of ships that are allowed to benefit from the port facilities, by imposing certain restrictions, such as not allowing small ships, especially traditional ships, to use their ports, whereas, in Dubai the facilities are available for every kind of ship regardless of its size”.

In fact, this issue does not involve Omani ports only, but other GCC countries are also concerned in the rapid growth of the Dubai ports, which are usually at the expense of other GCC countries’ ports. This point of view was clearly expressed in a study prepared by the Union of GCC Chambers of Commerce (1995). It claimed that “some GCC countries tried to imitate Dubai by spending a lot on building ports and developing their efficiency. Nevertheless, these ports are still confronting different obstacles for a number of reasons”.

The study listed some of these obstacles facing GCC ports and the reasons for them:

- GCC ports suffer from the high price of services offered in these ports, in comparison to those offered in Dubai or other international ports.
- Most of these ports are managed by the public sector in the member states, which is itself suffering from inefficiency and this leads to the high costs of these ports services and to weakness and disorganisation.
- Because of subordinating these ports to public-sector authority, they encounter difficulties in loading and handling services, which lead to delays in declaration and the high costs of services, in addition to the damage that some goods are subject to during this process.
- The monopolization of the handling and loading activities by some firms may lead to the high costs and inefficiency of these services.
- Poor exploitation of these ports capabilities, because the plans which were drawn up for the establishing and designing of these ports were based on the economic situation which prevailed in the region during the period of economic prosperity and coincided with the oil price boom. Therefore, these studies lead to unrealistic expectations about the role and capacity of these ports.
- The lack of common economic criteria for the price of loading, unloading, and storing costs, resulting from the absence of common legitimate rules governing these services in the GCC countries.
- Finally, the variation in the services of the GCC ports as a result of the differences in incentives and the local rules which control these ports. (Union of GCC Chambers of Commerce, (1995).

7.4.3 Tourism Factor:

Another important factor responsible for the intensive importing by Omanis from the UAE is tourism, as this study reveals. In the last two decades, Dubai has managed to attract visitors not only from Oman but from all the other GCC countries and from different world countries. This rapid development in the tourist sector poses an important question about whether this speedy growth will help to provide an opportunity for this sector to play a major role in the GCC integration process, especially considering the slow progress of the goods sector caused by the similarity in GCC national products, as mentioned earlier.

Not surprisingly, the majority of Omani businessmen (about 71% of the respondents) either agree or strongly agree with the idea that tourism plays a vital role in influencing many Omanis to purchase from neighbouring markets. In fact, some officials try to ignore this factor prompting many Omani people to visit Dubai and do their shopping there. Thus, the field study with Omani businessmen (as mentioned above) revealed that the majority of them think that this factor is partly responsible for the intensive purchasing from Dubai.

The focus group interview with some Omani senior officials revealed, to some degree, the reality about the increasing role of tourism in the GCC economic integration process, when the researcher asked them: It is evident that there has been a huge increase in the number of tourists visiting Salalah during the summer season, and the vast number of GCC citizens who participate in the Dubai shopping festivals, Do you think that the tourism sector, if it continues at this rate of growth, will play a major role in leading to economic integration between the GCC countries,?

. The Omani senior officials agreed with this suggestion and they recognized the developing role of tourism. One interviewee proposed that: “the increasing role of this sector in the integration process provides it with an opportunity to play a positive part in strengthening the relationships between the people of the GCC countries, and in participating in eliminating many social and economic barriers.

However, tourism in the GCC countries needs time to play a distinctive role in the economic integration process because this sector is still relatively new and most GCC countries suffer from a lack of basic tourist infrastructure. Consequently, the tourist sector role will not be an alternative to that of the other sectors in the integration process but complementary”

Another interviewee thinks that increasing the role of tourism will be in the interests of the Sultanate and may help to compensate for any side effects, such as distortions or diversion in trade, which may occur as a result of its trade relation with the GCC countries, especially after the inception of the customs union.

One Omani senior official argues:

“The Sultanate will be the main beneficiary from the growing and developing of the tourist sector, as the Sultanate is the only state among the GCC countries that can show diversification in that sector, such as the variety of its natural landscapes and the moderate weather in Salalah, which have started to attract hundreds of thousands of GCC citizens in the summer season because it enjoys moderate temperatures and rainy weather during the summer season, whereas, at the same time, the temperature reaches fifty centigrade in some GCC countries”.

7.5 Customs Union Effects on Omani Exports to GCC

Countries:

The Sultanate of Oman, like other GCC countries, is distinguished by its high dependence on oil revenues as the main source of its national income and during the last two decades its development plans have been badly affected by the fluctuation in oil prices. This situation generates a feeling of instability in the GCC development process and creates a feeling of mystery about the future prosperity and development of these countries.

In order to diversify its national income, Oman adopted an industrial strategy based on developing its manufacturing industry. “This sector is characterized by its ability for continuous growth, and it is one of the major sectors which is liable to increase the country's export revenues. Another merit of this sector is that it uses domestic natural resources as inputs for the manufacturing industries, something which increases the value added to such resources when they are exported in the form of manufactured projects instead of raw materials” (Industrial Statistics Book, 2004).

As a result, the contribution of the manufacturing industries sector to the gross domestic product (GDP) in Oman is increasing successfully. For instance:

“In 1995 it contributed only 4.7% and 5.4% in 2000 to reach, in the years 2001 – 2003, about 7.7% - 8.3%. This rapid growth in the last three decades confirms that the sector is growing at rates that qualify it to become one of the most important elements of national income in the foreseeable future.

The manufacturing industry is progressing pursuant to specific programmes aimed at the sector's achievement in the growth rates set for it by the country's economic and social development plans. It is anticipated that the sector's contribution to GDP will reach 15%, according to the Oman Economic Vision 2020” (*ibid*).

Another dimension to Omani exports to the GCC countries is the agricultural and fisheries products. The Sultanate of Oman, unlike many GCC countries, is distinguished by its agricultural and fisheries products and a large number of its people are engaged in this business. In fact, these products make up a considerable part of its exports to other GCC countries.

According to Ahmed Mukki’s (the Omani Minister of National Economy) manifesto introduced to the Omani Shura Council (Omani Parliament): “The non-oil goods exports - including re-export activity – grew, during the period 2001-2004, from 926 million Omani Riyals in 2000 to about 1593 million Omani Riyals in 2004 (1 R= 2.6\$). The annual growth rate of this sector is registered at about 14.5% a year.

This notable performance of non-oil exports could be attributed to the strong growth of liquid natural gas exports which increased during this period at a yearly rate of 37.2 %, from 179 million OR in 2000 to 634 million Omani Riyals in 20004. The other non-oil Omani products exports grew from 248 million Omani Riyals in 2000 to 420 million Riyals, at an average annual rate of 14.1%.

This growth came as a direct result of the improvement in their competitive ability, following the decrease in the Omani Riyal exchange rate in relation to other currencies.

On the other hand, the contribution of the agricultural and fishery sectors to the Omani gross domestic product (GDP) grew from 149 million OR in 2000 to 162 million OR in 2004 (Manifesto of the Omani National Economy Minister, 2005).

The question which now poses itself is, to what extent will the creation of the customs union contribute to an increase in the volume of Omani exports to the GCC countries and to what extent will it help to eliminate and remove the tariff and non-tariff barriers which face these exports and impede the free flow of products?

7.5.1 Continuing Impediments Facing Omani Exports after the Inception of the CU:

According to the questionnaire that was conducted with the Omani businessmen, the majority of them think that Omani exports to the GCC countries still face a number of impediments, even after the setting up of the customs union.

This belief about the continuation of obstacles, even after the inception of the GCC customs union, can be attributed to a variety of factors:

First of all, the failure of the GCC countries to reach a final solution to some of the customs union crucial issues and the three years' delay, contributed to the continuation of several procedures that were implemented in some countries prior to the beginning of the customs union. These led to the prevention of Omani products and other GCC countries' projects from securing the customs union advantages during this transitional stage.

According to the customs union agreement, some CU rules were suspended, and left to be discussed later during what was known as the transitional period, in order to reach collective approval for them before the final stage.

Despite the situation surrounding the creation of the customs union, the GCC countries were forced to accept a transitional stage, which lasted for three years. This decision was partly responsible for depriving the GCC countries of harvesting the fruits of the customs union from the day of its inception and led to the continuation of non-tariff barriers that had existed prior to the customs union.

For example, the disagreement about the common collection and distribution of the customs revenues, and the shares of the participant countries from the same revenues, led to the implementing of a procedure whereby the exporter or importer had to prove that his goods had been subject to a common customs tariff at the single point of entry into the GCC states or repay the customs tariff.

In fact, this procedure was one of the obstacles behind the continuation of intra-trade impediments. It came into being as a result of a disagreement between the member states about their shares from these revenues. Each member state thought it had the right

to a higher proportion of the customs tariff revenues, according to the criteria used to support these demands.

The committee assigned to monitor the implementation of the customs union - the researcher was a member of this committee- discussed several choices for distributing the customs revenues by examining several criteria, such as the volume of imports of every member country during the five years prior to the customs union inception. The amount of customs revenues of the member states during the last three or five years was another criterion which was examined in this committee, and finally, the European Community mechanism for collecting and distributing the customs union revenue, which had been implemented by the European Union countries.

All the above proposals were rejected by the member states, and they failed for different reasons. For example, the volume of the imports was turned down by some GCC countries, because imports in some of them were not for local consumption only but for re-export to other GCC or world countries. They justified their point by citing the huge quantity of UAE goods imported for re-export purposes, especially in the Dubai Emirate, which was famous for its re-export trade. In fact, a lot of Dubai imports are consumed inside other GCC markets, especially the Sultanate of Oman, whose domestic market largely depends on such imports.

Also, the high tariff which was implemented in some GCC countries prior to the arrival of the customs union, especially in Saudi Arabia and Bahrain, played a role in limiting the volume of imports to both countries from the outside world. According to these countries, it is not fair to compare the real volume of imports between countries that adopt different customs tariffs as, according to international trade theories, there is a contrary relation between the rate of tariff and the volume of imports. In other words, wherever the rate of tariff is higher the volume of imports is lower.

Determining the shares according to the customs revenue criterion was also rejected by several countries, because some impose a higher tariff on imported goods, consequently their customs revenues will be higher than those of countries that adopt a very low customs tariff. For example, places like the Sultanate of Oman and the UAE, which adopted a very low customs tariff rate of 5% and 4%, in addition to the long list of duty-

free goods, especially from the UAE side, played a role in reducing the real volume of their customs revenues, prior to the establishment of the customs union.

All these factors prompted the committee to keep this option open and to delay discussing this issue until accurate statistical information was available, under equal and fair economic and trade conditions.

The practical choice was the European Community option, which was based on allocating 10% of the customs revenue in interest to the country importing the goods through its ports, with 90% of the same revenue being transferred to a consolidated fund in the central bank of the importing country, and later to be switched to the European Central Bank, in favour of the European Union Commission. This was to be employed to implement common projects serving to boost the integration process among the participant countries and to improve the less developed areas in the member countries. (GCC Economic Integration Program, 2001).

This option, like the previous ones, did not satisfy the GCC countries for several reasons, First of all, unlike the European Union Commission, the GCC General Secretariat functions are very limited and its role, according to the GCC charter, restricted to organizing meetings, preparing studies for co-operation and ensuring the implementation of the resolutions...etc.

This big difference in the role of the two institutions (GCC General Secretariat and European Union Commission), lies in the absence of any vision towards developing the role of the GCC General Secretariat and its functions in the near future. All these factors influenced the committee assigned to monitor the implementation of the customs union of the GCC countries, to abandon or delay discussing the common collection and distribution of the customs revenues till the final phase.

As a result, the postponement of this issue to the final stage, led to the keeping of the GCC products subject to regular import procedures, in addition to tariff and non-tariff formalities during their movement among the member states, and the depriving of the businessmen in the GCC from harvesting the fruits of the customs union during the transitional phase.

Another factor behind the impediments confronting Omani exports to the GCC countries, even after the inauguration of the customs union, was the differences among the participating countries concerning the future of the customs land borders, and whether the customs departments would continue to play the same role, even after the setting up of the customs union, which might lead to the GCC products being subject to many customs inspections in their movement from one country to another.

Therefore, some GCC countries – the Sultanate of Oman is one of them - think that the role of the customs land should be abolished after the customs union is set up, since the existence of these customs points is contrary to customs union principles, and it will play a role in hindering the free flow of goods between the GCC countries as well as depriving the member states of achieving this customs union.

Whereas other countries, especially Saudi Arabia, insist on the continued existence of these border outlets, especially for security purposes, even when the customs union is in place.

Part of this disagreement might be put down to the difficulty that the GCC countries faced in reaching a unified list of prohibited and restricted goods. For example, Saudi Arabia, according to its customs regulations, does not allow importing liquor and alcoholic products, whereas these are allowed in other GCC countries, with some control.

This example helps to form a picture about the nature of these difficulties behind the disagreement and shed light on the reasons for the intensive inspection in some border outlets, which caused delays and sometimes damage to the imported goods.

7.5.2 The Main Obstacles Facing Omani Exports to GCC Countries:

In addition to the obstacles related to the customs union agreement, there are some impediments confronting Omani exports to the GCC countries that relate to the GCC countries industrial structure itself or to the legal and administrative procedures that are implemented by the member states.

According to the field study with the Omani businessmen, the majority (27% of the sample) considered the low price of foreign goods as the main obstacle facing Omani products in the GCC local markets, whereas, 21% chose all the above-mentioned reasons as impediments confronting Omani products. These include, in addition to the low cost of foreign commodities, the low price of the local products in the importing country, the routine and administrative obstacles, the long distance between the GCC markets, the difference in goods' specifications and measurements, the lack of information about the GCC markets and the preference for local products.

This result gives an indication about the consequences of the low common tariff which was adopted by the GCC customs union. This tariff, as will be made clear later, left the GCC products without any protective umbrella and kept them in unfair competition with those of the developed countries which vigorously invaded the GCC markets.

On the other hand, the low price of the GCC local products, which was one of the obstacles encountered by Omani exports to the GCC countries, could have been caused by a number of factors:

First of all, the similarity of the GCC products created strong competition between them. Thus, over 47% of the Omani businessmen agree or strongly agree with the opinion that GCC national products are the main competitor for Omani national products, while less than 32% of the respondents disagree with that point of view, in comparison with 17.8% of the respondents who were not sure.

Furthermore, some GCC goods, especially Saudi Arabian and UAE products, benefit from large-scale production, by reason of their relatively large populations, which, in the case of Saudi Arabia, account for more than 70% of the entire population of the GCC countries and on account of the high volume of re-export activity in the case of the UAE. This advantage enables these two countries to offer competitively low prices for their products. In addition, they have the largest economies in the GCC community.

Therefore, not surprisingly, the field study with Omani businessmen revealed that Saudi and UAE goods are considered the most competitive GCC products in the Sultanate market.

On the other hand, the field study with the Omani businessmen revealed that the majority of them think that the high costs of the products are due to the high cost of production, transport and services, and this is the factor most responsible for limiting Omani exports to the markets of GCC countries. This is superseded by other factors which include in-country preferences for in-country products, administrative obstacles in exporting and marketing in these countries and the inability of Omani products to compete in terms of quality.

Furthermore, the difference in subsidies and incentives that the GCC countries' governments offer to their industrial firms and to the private sector, was another factor behind these difficulties facing the Omani goods in the GCC local markets.

Moreover, the long distance between GCC markets was one among a number of obstacles that Omani exports to GCC countries suffered from. In fact, this difficulty could be attributed to two reasons:

First of all, the vast geographical distances between the GCC domestic markets and the wide spread of these markets; for instance, the distance between the Muscat and the Riyadh market is more than 1500 km. whereas the distance between the Muscat market and the Jeddah market is over 2500 km.

What is more, this problem can also be found even within the same country; for instance, viewed from the Sultanate of Oman, the Dubai and Doha markets are closer to the Muscat market than the Salalah market in the Sultanate of Oman. Moreover, the distance between Muscat and Dubai is about 300 km, whereas, Salalah is 1000 km from Muscat.

In addition, the GCC countries did not initiate or develop and build a modern transport system to link the GCC countries in the last quarter of a century. Nowadays there is an attempt to build railway links between the GCC member countries, and if such a step is adopted, it will play a major role in developing GCC intra-trade and will enhance economic relations among its members.

Furthermore, the transport sector in the GCC countries suffers from different types of obstacles. For example, in some of these countries transportation by sea is monopolized by a few organizations which are very inefficient in using their resources. Land transportation is confined to trucking firms with little railroad development, and the trucking companies often find their movements hindered by such things as difficulties in getting visas for their drivers (Ibid).

The difference in specifications and measurements amongst the GCC countries is another obstacle facing Omani products. This problem has persisted in spite of the fact that the GCC countries created a GCC Specifications and Measurements Organization, but some customs departments do not restrict themselves to using this institution's specifications but adopt local ones.

The lack of information about the GCC markets was another obstacle confronted by Omani exports to the GCC countries. In fact, Omani businessmen's strong links with the Dubai market over a long period of time deprived them not only of information about the marketing opportunities available in the GCC markets, but also those in the international markets.

In any case, this dearth of information about the international markets, was not an obstacle faced by Omani businessmen alone, but it is one of the most important barriers facing exporters in several GCC countries in general, for example, the Saudi Arabian Exports Assurance Centre (1996), adopted two initiatives so as to overcome this obstacle:

- conducting a field study in order to register all Saudi exporters and Saudi products that may be exported, in order to ensure that the exporters' database is available before that of the importers.
- Starting up an exports databank centre linking the Saudi exporters with the centre and the external markets (Saudi Exports Developing Centre, 1996).

However, despite these obstacles which face Omani exports even after the creation of the customs union, the majority of Omani businessmen think that this organisation will help to increase Omani exports to the GCC countries.

In fact, the existence of such obstacles to GCC intra- trade can not diminish the great achievements that were accomplished during the GCC economic integration process. Therefore, it is no surprise that, in spite of the obstacles facing Omani exports to GCC countries, the majority of Omani businessmen think that the setting up of the customs union will help to increase Omani exports to GCC countries.

The researcher believes that this positive position taken by Omani businessmen towards the GCC customs union, stem from the point of view that most of these obstacles are temporary and associated with the transitional phase of the customs union and he also believes that the GCC countries will manage to remove or at least limit the side effects of these obstacles immediately after the start of the final phase of the customs union..

7.5.3 Factors behind the competition among GCC products:

The existence of strong competition between GCC and Omani products in the domestic market was one of the challenges facing Omani goods, as a result of its membership of the GCC customs union.

Among several factors mentioned in the questionnaire given to Omani businessmen, direct and indirect governmental subsidies offered to industry were the main factor cited by the majority of them for GCC countries offering lower prices for their products in the Omani markets. This factor preceded several factors mentioned in the questionnaire: low unit price due to mass production, low cost of production inputs and services, low quality of exported goods, and low outlay for the disposal of surplus production.

This result sheds light on the role of direct and indirect governmental incentives that are offered to national industry in some GCC countries and the part played by these subsidies in distorting trade among the customs union members under unfair conditions, which contributed to depriving Omani products of winning their real share of GCC, exports during the last two decades.

Offering incentives to the manufacturing industries in developing countries, especially during the initial stages is a debatable issue, and despite the negative role of such

incentives in international trade, some economic theorists stress their role in supporting the manufacturing industries in the developing countries. They argue that:

“the infant industries in developing countries have a potential comparative advantage in manufacturing, but new manufacturing industries in developing countries can not initially compete with well-established manufacturing in developed countries. To allow manufacturing to get a toehold, governments should temporarily support new industries, until they have grown strong enough to meet international competition. Thus it makes sense, according to this argument, to use tariffs or import quotas as temporary measures to get industrialization started. It is a historical fact that the world’s three largest market economies all began their industrialization behind trade barriers: the United States and Germany had high tariff rates on manufacturing in the nineteenth century, while Japan had extensive import controls until the 1970s” (Krugman and Obstfeld, 2000:255-256).

Furthermore, the difference in subsidies and incentives that the GCC countries’ governments offer to its manufacturing industries and to the private sector, were another factor behind the difficulties facing Omani products in the GCC local markets. Part of this problem occurred as a result of the GCC countries’ failure to adopt and implement a common industrial policy, in order to overcome the obstacles that confronted the GCC industries because of the similarity between their products and their neglect in organizing the subsidies provided to GCC industries, which led to this gap in costs and the differences in prices between similar GCC national products.

Professor Al-Kuwayr Ali stresses the role of these differences in subsidies in distorting the intra-trade between the GCC countries, and their negative role in affecting the marketing of national products, on account of the unfair competition that occurs as a result of differences in the incentives that every GCC country offers its local industry. Alkuwayr suggests the following solutions to overcome this problem:

“We should unify the amount of incentives that are given to each industry in each country or overcome these differences by compensating the less able industries in those countries.

This could be achieved by an increase of 2% in the customs duty for the GCC countries and this income would then be given to the industries that deserve these incentives because of the differences” (Abdullah,1991).

Generally speaking, these differences in subsidies will not last for very long and may be eliminated in the near future, or at least limited in their effects, when all the GCC countries have become members of the WTO, especially, when Saudi Arabia has gained membership of this international organization and become the last GCC country member to join it in November 2005.

However, in accordance with the international organization rules, such direct subsidies, which lead to a distortion in international trade, are not allowed. As a result of the GCC countries’ commitment to the WTO, such rules may help to close this gap in prices among the GCC countries national products in the future.

7.6 Adopting Further Economic Integration Steps amongst the GCC Countries:

This section will be divided into several subdivisions, each one of which will examine an issue relevant to the developing of the economic integration process between the GCC countries, by adopting further economic integration steps. These subdivisions include: The slowness of economic integration, the GCC Monetary Union, GCC common market and the enlargement of the GCC market.

7.6.1 The slowness of Economic Integration:

Speed in achieving economic integration in third world countries’ experiments, especially in the Arab world, was a two-edged sword and, it was responsible for the failure of several attempts at integration. Thus, several third world and Arab countries failed to integrate in the past because the decision-makers and politicians wanted to reach full integration from the very first day, and did not adopt a graduated step-by-step approach to implement their goals of co-operation and integration.

The effects of this haste could be also observed in the attempts of these countries to introduce integration in every political, social, and economic field from the first day, unlike the European Union integration experiment which started by concentrating on the economic field, which was regarded as the driving force behind the integration experiment.

In fact, the immediate consequences of this rapid full package of integration in third world countries could be clearly seen in any disagreements that arose between the member states about issues in these fields, which had a direct knock-on effect in the other fields and led to failure in all other cooperative processes.

According to the questionnaire that was conducted with the Omani businessmen, the great majority of them revealed their dissatisfaction with the slowness of the economic integration process between the GCC countries in the last two decades and they thought it should proceed at a faster pace in the future.

Actually, it seems that both the private and public sectors of the Sultanate of Oman support the GCC economic integration process as the only means that can help to overcome a number of internal challenges that the Sultanate of Oman is suffering from at the moment or may face in the future, such as the rapid annual growth in the number of job seekers, and the limitations of the private sector to absorb this rapid increase because of the shortcomings of the local market. On the other hand, some GCC countries suffer from a lack of population, like the UAE, where foreigners form more than 80% of the labour force. Consequently, the People of the Sultanate look on economic integration with the GCC countries as an important option to overcome these challenges.

This problem was discussed with Omani senior officials during an interview, when the researcher asked them this question: Despite the relative success of GCC economic integration comparing with many pan-Arab experiments, it is a very slow process, for instance, the GCC countries took about 23 years to move from a free trade area to a customs union, so what are the reasons behind this sluggish rate of progress? And will the move from the customs union stage to a common market and monetary union take a similar amount of time?

They recognise this relative slowness in the GCC economic integration process and interpret it as follows:

“When GCC economic integration was established about a quarter of a century ago, abolishing the customs tariff was not a simple issue. In fact, what the GCC countries decided at that stage was considered a great achievement and could be regarded as a successful step, compared with the integration experiments in Arab and third world countries. Furthermore, we should not forget that during the last two decades, the GCC countries were busily engaged in enormous events, like the Iraq-Iran war, which continued for more than eight years, and the Iraqi invasion of Kuwait in 1990. These important episodes led the GCC countries to pay less attention to economic problems and concentrate their efforts on resolving these huge political and military issues, which were threatening the future of the whole region”.

Another interviewee thought that:

“Adopting further economic integration steps in the future, will not consume that much of time. It will be easier than the previous integration stages, especially since the GCC countries have gone a long way to completing their legislative and administrative infrastructures”.

A third interviewee stresses the view that, “According to the time-table that was approved by the leaders of the GCC, monetary union and the GCC single currency should be introduced by 2010. Therefore, it is our hope that the progress of economic integration will continue with steady and rapid steps in the future”.

7.6.2 GCC Monetary Union:

The setting up of a monetary union and the adopting of a single GCC currency are a dream which the people of the GCC countries are looking forward to achieving, and they hope to put it into practice as soon as possible. Monetary union is one of the sensitive issues of economic integration because it is related to that of sovereignty. This has caused several economic integration processes to come to a standstill for a long time at this stage. Even within the European Union integration experiment, the United

Kingdom up to this very moment refuses to join the European Monetary System and to replace its currency with the Euro.

The great majority of Omani businessmen agree or strongly agree with the opinion that the establishment of a GCC monetary union and the adopting of a single currency will be a crucial step in the economic integration process.

This position conforms to their positive attitude towards the entire GCC integration process and meets their desire to adopt further economic co-operation.

The Financial and Economic Committee of the GCC countries, in its last meeting in Riyadh 14 July 2005, approved the introduction of a single GCC currency in 2010 and they suggested several criteria that the member states should meet in order to join this monetary union.

Rashed Mohammad Al-Maraj, the governor of Bahrain's Monetary Agency, said in an interview "We are in the process of drawing up the convergence criteria. Our aim is to reach agreement on the details by 2006... Our economies have much in common... Trade in the region is on the increase. It makes sense to try and set up a monetary union".

A central banker added that experiences of the euro area would be drawn on when drawing up the convergence criteria, with reference to values laid down for debt, inflation and the public deficit. "We're going to ask the European Central Bank for support," (Al-Maraj, 2005).

The US dollar was approved as the yardstick for the GCC single currency. All GCC states except Kuwait have their currency pegged to the dollar. The Kuwaiti Dinar is pegged to a basket of currencies, mainly the dollar. (Al-Zobaidy, 2002).

7.6.3 GCC Common Market:

As can be seen from table 6.34, there is almost unanimity among the Omani businessmen about the idea that the creating of a GCC common market, in which the free movement of goods, capital and people between the various countries together with common economic and fiscal policies, will be most advantageous to the GCC countries.

Indeed, despite the fact that the economic integration of the GCC countries is officially at the customs union stage, there are a lot of common market features which have been started on and implemented on the ground among the GCC countries since their inception. For example, article eight of the unified economic agreement, signed in 1982, stated that: "The member states shall agree on executive principles to ensure that each member state shall grant citizens of all other member states the same treatment as is granted to its own citizens without any discrimination or differentiation, in the following areas:

Freedom of movement, work and residence.

Right of ownership, inheritance and bequest.

Freedom of exercising economic activity.

Free movement of capital".

Also, the unified economic treaty, signed in December 2001, stated in article 3 that:

GCC natural and legal citizens shall be accorded, in any Member State, the same treatment accorded to its own citizens, without differentiation or discrimination, in all economic activities, especially the following:

1. Movement and residence
2. Work in private and government jobs
3. Pension and social security.
4. Engagement in all professions and crafts
5. Engagement in all economic, investment and service activities
6. Real estate ownership
7. Capital movement
8. Tax treatment
9. Stock ownership and formation of corporations
10. Education, health and social services

Member States shall agree to complete implementation rules, sufficient to carry this out and bring into being the Gulf Common Market.

In fact, these economic rights which are granted to GCC citizens are regarded as aspects of the common market and go beyond the customs union stage principles. However, the

problem lies in the implementation of these decisions and in putting them into practice in the member states.

76.4 Enlargement of GCC Market Size:

The enlargement of the GCC market to include the markets of neighbouring countries is a questionable issue. It reminds us of the debate that took place among the European Union Community countries between those that called for enlarging that community to include neighbouring countries, especially those belonging to Eastern Europe, and those calling for a deepening of the European Community, so as to give priority to adopting further steps towards economic integration.

This issue is discussed intensively in the GCC countries nowadays, especially since the new changes in Iraq and the removal of the Baath party from power.

This question is also relevant because of certain events that took place in the GCC countries after the rapid development of the area, during the last two decades, especially after the intensive growth of their industries, based on large-scale production. These developments encouraged some GCC countries to look for international markets outside their own, and to sign bilateral trade treaties, such as those that some GCC countries, like Bahrain, UAE and the Sultanate of Oman, had signed unilaterally with the United States of America.

All these developments were behind the intensive moves to enlarge GCC membership to include other neighbouring countries during the last decade.

The GCC Supreme Council, in its final meeting in Muscat in December 2001, agreed to grant Yemen a special concession by accepting it as a member of several GCC institutions and by allowing it a position similar to that enjoyed by Iraq before its invasion of Kuwait in 1990.

According to the field study that was conducted with the Omani businessmen, the majority of the sample agreed with the idea that the enlargement of the Gulf market by

including new neighbouring markets, such as Yemen and Iraq, would be to the advantage of the GCC economies.

In my opinion, the GCC countries should learn a lot from the European Union's experiment to absorb Eastern European countries into their community, despite the huge gap between their levels of development.

This problem has become more acute, especially since the great and rapid changes in Iraq following the ousting of Saddam Hussein's regime. Also, when the republican regime in Yemen exerted strenuous efforts to lay the foundations of civil society institutions and adopted further social, economic and political reforms to modernize the life of the people of that country, it managed, to a large extent, to shift the loyalty of the Yemeni people from the tribe to the state.

Actually, as was made clear earlier, the success of any economic integration experiment between countries usually tempts neighbouring countries to want to participate in that community. In fact, the vision to enlarge the membership of the GCC to include other neighbouring countries of the Gulf started very early.

Yousf Sherawi, the Bahraini Minister of Development, gave a talk in London, in which he suggested that there was nothing to prevent the enlargement of the GCC group by allowing other Arab States - by invitation - to join the association. Sherawi cited that "Yemen Arab Republic (north Yemen) and Iraq as two potential member candidates; the first ground was that the Yemen has at least a geographical linkage with the rest of the peninsula countries, and the second on the basis that Iraq is, in maritime terms, a Gulf state"(Christie, 1987:13)

The Omani senior officials, during the focus group interview, revealed a positive attitude towards this issue, similar to the private sector view and expressed their agreement with the idea of calling for enlargement of the GCC market to include neighbouring countries, such as Yemen and Iraq.

The interviewees made clear their support for the expansion of customs union membership to include some neighbouring countries, such as Yemen and Iraq, in the GCC market, by stating:

“It is believed that as the market grows larger it is more profitable and more beneficial for the members. Including markets, such as those of Iraq and Yemen, with their huge populations, will provide the businessmen in the GCC with an opportunity to benefit from these new markets and will contribute to the establishing of large-scale industries in the region, which will be more profitable and less costly”.

The interviewees further stress this point by saying “In fact the GCC countries look beyond those included in these two markets. We are looking for benefits from the whole of the Arab markets and we are already members of the Arab Free Trade Area, which includes twenty Arab countries. There is also a plan with the Arab League to convert it into a customs union in the future and to include all the Arab countries”.

One interviewee drew attention to some obstacles from the past behind the anxiety of some GCC countries to exclude these two countries, Iraq and Yemen, from GCC membership: “The differences in political systems between the GCC countries and those of Iraq and Yemen have played a role in keeping these two countries outside the GCC umbrella in the past, in addition to the security factor which also poses a threat. But the last decade there have been big changes and positive progress in these two countries, which may qualify them for membership to the GCC community”.

7.7 Conclusion:

Several issues have been discussed in this chapter related to the economic integration process amongst the GCC countries and its effects on the Omani economy.

All the conclusions and outcomes that can be extracted from this discussion have been taken from the questionnaire that was supplied to the Omani businessmen, and from the focus group interview that was conducted with the Omani senior officials regarding the economic integration between the GCC countries, will be shown in the next chapter, which is dedicated to displaying the theoretical and empirical conclusions.

CHAPTER EIGHT

CONCLUSION and RECOMMENDATIONS

8.1 Introduction:

This chapter summarizes all the results and findings that have been drawn from the literature review, which are based on a number of regional integration theories. A quantitative survey was conducted by using a questionnaire with Omani businessmen in order to find out their attitudes to the GCC economic integration process in the light of the customs union experiment. A focus group interview technique was also used in an interview with Omani senior officials, whose jobs were related to the GCC integration process.

By combining quantitative and qualitative techniques of data collection and analysis, this study has correlated the private and public sector views about the research questions that are used, and has attempted to find out to what extent the official view meets with that of the private sector on the issues that were raised in the thesis. The researcher employed a focus group interview technique in order to give extra credibility to the data that was collected through the questionnaire used with the Omani businessmen.

8.2 Empirical Findings:

1-The field study with both Omani senior officials through the focus group interview which was conducted with them or with the Omani businessmen through the questionnaire, revealed that the majority of them have a positive attitude towards economic integration between GCC countries in general, and towards the establishing of a customs union in particular. This positive feeling could be ascribed to the fact that GCC countries partly benefited from the European Union experiment, when they decided to adopt integration in the economic sector as a driving force for their regional integration., and was far-removed from the notion of concentrating on the ideological and political issues that governed the Arab integration experiments, which led to the failure of their regional integration projects before the first political disagreement appeared among the member states.

2- As a result, these positive perceptions towards the GCC integration process were evident in several criteria used in the field study, which was conducted with the Omani businessmen. For example, the study disclosed that the majority of the Omani businessmen thought that achievements in the economic field were the most successful in the GCC integration process and ahead of the political, military and security areas.

3- The study also revealed that the large majority of Omani businessmen voiced their dissatisfaction with the slowness of the economic integration process among the GCC countries during the previous two decades and they expressed the hope that it would speed up in the future.

This attitude might be understood if it were known that the private and public sectors of the Sultanate of Oman had a stake in the GCC economic integration process as an instrument that could help overcome a number of internal economic challenges, such as the inability of the Omani domestic market to take up Omani national products. This is compounded by the unemployment problem, whereby too many Omani young people are seeking jobs which the private and public sectors are unable to provide.

Whereas, some GCC neighbouring countries, like the UAE, suffer from a dearth of population and, consequently, foreigners form more than 80% of their workforce.

4- This positive outlook could also be noted among the majority of Omani businessmen: about 76% of the sample agree or strongly agree with the view that the move from the free trade area towards the customs union was a good step towards full GCC economic integration, but not enough.

5- Most of the Omani businessmen think that the establishment of the customs union was the most important step in the direction of integration among the GCC countries. This factor came before the exemption of national products from the customs tariff, before the GCC citizens' freedom to move with ID cards instead of passports and before the adopting of the GCC single currency.

This result demonstrates the real desire Of Omani businessmen to adopt further economic steps towards integration and it reflects their high interest in integration in fields related to the goods sector, and helping to ensure the free movement of their goods to GCC countries especially since that market has become the only available space for Omani businessmen to sell their future products. As a result, they long ago started to embark on a viable study of their economic prospects in GCC market situations, where there are more than thirty million people with a very high per capita income.

6- The study disclosed that most Omani businessmen have made one or more business visits to at least one GCC member country. About 75% of the sample made such a visit, whereas only 25% of the sample had failed to do so.

This high percentage of Omanis making a business trip to one or more GCC countries, reflects the strong economic relations among the GCC community and the growth in the mutual trade interests among the private sectors of the participant countries.

7-The questionnaire that was distributed to the Omani businessmen, showed a clear realisation of the existence of these barriers in GCC countries, and most businessmen (about 84% of the sample) think that there still exist impediments to GCC intra trade, even after the creation of the customs union.

8- The study revealed that most businessmen (81% of the whole sample) believe that the obstacles confronting GCC intra trade differ from one country to another, and they made specific mention of the United Arab Emirates as the country with least trade impediments amongst the GCC countries, while Saudi Arabia was classified by more than 83% of the businessmen as the place with the most serious trade barriers.

9- Most Omani businessmen (over 72% of the sample) believe that the establishment of the customs union among GCC countries will help to eliminate all the obstacles hindering intra-trade among such countries and over 78% of the sample expects that the volume of intra-trade will increase rapidly, as a result of customs union formation. These positive expectations have arisen despite current obstacles to intra-trade, about which Omani businessmen and senior officials have articulated their views.

10- The field study disclosed that most respondents think that the similarity between GCC national products inhibits GCC intra-trade. This similarity results from the nature of GCC economic structures, where the member states are highly dependent on oil and petrochemical products as the main source of national income, in addition to the absence of a real common industrial policy among the GCC countries.

11- The majority of the respondents (almost 32% of the entire sample) regard the free movement of goods between the Gulf States, without customs or non-customs restrictions, as a very important step that will play a positive role in improving intra-trade among the GCC countries, whereas the adopting of a common external tariff, which is regarded as the most important feature of the customs union, is favoured by only 8% of the respondents.

12-The field study revealed that most Omani businessmen prefer not to assign the phenomenon of importing from neighbouring GCC markets to one factor. Thus, about 36% of the sample chose all the above-mentioned factors as reasons for importing from those countries. These include: the huge size of the neighbouring countries' markets, which provide the buyer with different type of goods varying in quality and price; the lack of information about the international markets; the ease of mutual understanding and payment facilities; and the absence of a customs land border point from these neighbouring countries side.

13- The field study showed that 29% of the sample thinks that the low price of goods that prevail in the Dubai market was one reason for purchasing from the UAE. The researcher believes that two factors played a role here:

First of all, the low tariffs that were applied in the UAE prior to the establishment of the customs union, in addition to a long list of duty-free goods, which include a wide range of items, such as foodstuffs and building materials that were exempted from the customs tariff. This situation helped in part to generate a price gap between the Sultanate of Oman market and that of the UAE.

The second factor contributing to the low price in the Dubai market was caused by Omani senior officials. They attributed this to the huge size market of the Dubai market, where the businessmen can obtain special low prices from the main producers and exporters, known in the business world as a quantitative price cut. On the other hand, Omani businessmen are unable to get these prices cut because of the small quantities that are imported by the local market.

14-The ease of Omani border customs formalities in comparison to those in sea ports and airports encourages many Omanis to import from neighbouring GCC countries. Over 60% of Omani businessmen agree with this idea.

15-The field study revealed that most Omani businessmen think that adopting a common customs law will remove the diversity in customs procedures between the GCC countries and will encourage them to import directly through Omani ports.

However, even if the GCC countries adopt a single customs law, the procedures for implementation may continue to be different. For example, the percentage of goods that are subject to inspection is 100% in Saudi Arabia and Kuwait. In other words, all imported goods are subject to inspection procedures in these two countries. On the other hand, the Sultanate of Oman and the UAE adopt the random sample rule when inspecting goods, and this does not usually exceed 5% of the imported goods.

16- The study revealed that the preference of some Omani businessmen for importing through Dubai is not only directly related to the services that are offered or the fees that

are collected in Sultan Qaboos port or Dubai, but is linked to a problem that goes beyond that, which has several dimensions. Part of this is related to the structure of the Omani economy itself and to the trade policy that is adopted in this country. This has led to the contraction of the Sultanate domestic market and the absence of an open-door policy in the re-export trade, which are major reasons for the weak performance of Omani ports.

Thus, the survey revealed that the majority of Omani businessmen (about 60% of the whole sample) are not inclined to attribute this phenomenon to a specific factor but are inclined to ascribe it to various factors, which were mentioned as reasons for preferring to import their goods indirectly through Dubai.

17- About 71% of the respondents agree or strongly agree with the idea that tourism plays a strong part in prompting many Omanis to purchase from neighbouring markets. However, according to the focus group interview with Omani senior officials, the tourist sector in the GCC countries needs time to play a distinct role in the economic integration process. Because this sector is still relatively new, most GCC countries suffer from a lack of a basic tourist infrastructure. Therefore, this sector's role will not be an alternative to that of the other sectors in the integration process, but a complementary one.

18- Because of the failure of the GCC countries to reach a final solution for some crucial issues of the customs union, it has postponed to the final phase such issues as the role of the customs land border outlets, the common collection and distribution of the customs tariff and the shares of the participant countries from these revenues. Most Omani businessmen think that their exports to the GCC countries still face some obstacles, even after the establishment of the customs union.

19-The field study revealed that most identified the low price of foreign products as the main barrier to Omani exports in the GCC local markets. This finding gives an indication about the consequences of adopting the low common tariff by the GCC customs union. This left GCC products without any protective umbrella and subjected these products to unfair competition from those of developed countries, which flooded the GCC markets.

20- The majority of the Omani businessmen agree or strongly agree with the view that GCC products are the main competitor for Omani national products. Therefore, not surprisingly, the field study also showed that Saudi and UAE products are considered the most competitive GCC products in the Sultanate market.

21-Some GCC goods, especially from Saudi Arabia and the UAE, benefit from large-scale production resulting from their relatively large populations, which, in Saudi Arabia's case, make up more than 70% of the entire population of the GCC countries. And from the high volume of re-export activity, in the UAE case. These advantages enable these two countries to offer a competitively low price for their products. In addition, they have the largest economies in the GCC community.

22-The researcher thinks that this positive attitude of the Omani businessmen towards the GCC customs union, stems from the view that most of these obstacles are temporary and associated with the transitional phase of the customs union and that the GCC countries will manage to remove, or at least limit, the side-effects of these obstacles immediately after the customs union final phase starts.

It is, therefore, no surprise that, in spite of the obstacles facing Omani exports to the GCC countries, most Omani businessmen think that the setting up of a customs union will help to increase their exports to the GCC countries.

23- The study also showed that the direct and indirect governmental subsidies that were given to industry were the main factor prompting GCC countries to offer lower prices for their products in the Omani markets, according to most businessmen. This factor eclipsed several other factors that were mentioned in the questionnaire: the low unit price due to mass-production in these countries, the low price of production inputs and services, the low quality of exported goods and the low price for the disposal of surplus production.

24- There is strong support among Omani businessmen and senior officials for adopting further economic integration measures, such as a GCC single currency and a GCC common market, in which there would be free movement of goods, capital and people between the GCC countries, together with common economic and fiscal policies

25- In the field study and the focus group interview, the majority of the sample agreed with the idea that the enlargement of the Gulf market by including new neighbouring markets, such as Yemen and Iraq, would be to the advantage of the GCC economies.

8.3 Implications of the findings for approaches to Regional Integration

In spite of several obstacles and shortcomings associated with the Gulf Cooperation Council integration process, this experiment represents a successful attempt at regional integration, in comparison with the experiments of many third world countries, and pan-Arab regional integration undertakings. .

This success could be partly due to the fact that GCC countries benefited from many pan-Arab integration efforts, which failed because those who introduced them tried to reach full regional integration from the moment of inception, and by concentrating on the ideological and political aspects as the goals they aimed to achieve. Associated with this is the neglect of the role of the economic factor in driving this integration process forward, whereas the GCC regional integration experiment stressed the importance of the economic sector and its role in developing the mutual relations between the people of the participant countries and regarding it as the driving force in the regional integration process.

This vision conforms to a Neo-functionalist approach, which stresses the role of the economic sector in creating mutual relevancies among the “elite” of the participant countries. Therefore, it is not surprised to note that two weeks after announcing the establishment of the GCC, the member countries signed a unified economic treaty (Atya, 1998). According to this treaty, these countries created a Free Trade Area in which all the national products of the member states were exempted from customs tariffs.

However, the GCC experiment in regional integration could have achieved better results and reached its aims faster if these countries had managed to avoid various obstacles:

First of all, they failed to organise supranational institutions, which could have effectively led to an integration process, as Neo-functionalist theory emphasises. The role of the General Secretariat was also very limited, (according to article fifteen of the GCC charter) in “preparing studies” and “preparing period reports on the work of Cooperation Council”... etc. (General Secretariat, 1991:9).

Angell focused on this issue when he stated that “The GCC is not a supra-national institution with independent legislative and judicial authority. The member states have not ceded sovereignty to the GCC. Policies, resolutions and other actions taken in implementation of the charter have the effect of law under the legal systems of the member states, in accordance with their individual constitutional or other requirements” (Angell, 1987:129).

On the other hand, the neo-functionalism theory emphasises the role of these supra-national institutions in activating the regional integration process. As Hass stated in Chapter Two: “Supra-nationality, not federation, confederation or intergovernmental organization, seem to be the appropriate regional counterpart to the national state which no longer feels capable of realizing welfare aims within its own narrow borders, which has made its peace with the fact of interdependence in an industrial and egalitarian age. It represents the method adopted to secure maximum welfare, including military security, for a post-capitalist-state” (O’Neill, 1996:40).

Second, the GCC, by stipulating unanimity in its decision-making process, and requiring a consensus in its charter for adopting decisions, either by the Supreme Council or the Ministerial Council, fell into the same error as the Arab League sixty years earlier. This condition impeded the integration process on several occasions and was behind the slowness of the economic integration process among the Gulf Cooperation. This could be clearly observed by the fact that these countries took more than twenty-three years to move from a Free Trade Area to a Customs Union.

To repeat, the neo-functionalist approach stresses the development of a collective decision-making process and the way in which governmental and non-governmental elites change their attitudes and organization “as the locus of decision-making shifts from the national to the supranational level” (Hodges, 1972:21).

Finally, unlike the European Union integration experiment, the GCC totally ignored the role of “elites” in the integration process, omitted the role of social institutions and excluded public participation in the integration process.

However, a very small and timid attempt was made by the GCC Supreme Council in 1997 when it decided to establish the Consultative Commission for the GCC Supreme Council, all of whose members are not elected by the people of the member states, like the European Union members of parliament, but appointed by the governments of the participant countries.

Part of this problem could be put down to the absence of civil social institutions at the state level itself. Almost all the member states - as they are known - do not allow the political parties or the labour representatives to participate in public issues.

This absence of an “elitist” role in the integration process is completely against the neo-functional approach, as Ernest Hass maintains in Chapter Two “Elites are the leaders of all relevant political groups who habitually participate in the making of public decisions, whether as policy-makers in government, as lobbyists, or as spokesmen of political parties. They include the officials of trade associations, the spokesmen of organized labour, the higher civil servants and active politicians” (Hass, 1958: 17).

8.4 Recommendations:

1-GCC countries should reconsider the role of the GCC General Secretariat and its functions, in order enable this supra-national organization to fulfil its duties efficiently, especially with the GCC countries’ direction for adopting further economic integration steps, such as a GCC common market and a GCC single currency by setting up a monetary union.

2- Reconsidering the decision-making mechanism within the GCC institutions by amending articles nine and thirteen of the GCC charter, to be carried by majority vote rather than the current articles which stipulate that “resolutions of the Supreme Council and in the Ministerial Council in substantive matters shall be carried by unanimous approval of the members of the states participating in the voting, while resolutions on procedural matters shall be carried by majority vote”.

However, implementing the above two recommendations, depends to a great extent on the desire of the member state to improve the level of integration through creating a suitable mechanism which will enable GCC to deal at least with the technician problems which may facing the customs union issues.

3-Reconsidering public participation in the regional integration process and activating the role of political, social and economic elites in this regional integration experiment, in order to ensure the success and progress of integration as well as the European Union integration experiment in this field.

4-In order to ensure free movement of goods among the customs union members, GCC countries should reconsider the role of the customs border outlets by adopting a courageous decision to remove these cross-border outlets, which were responsible for hindering GCC intra-trade and depriving businessmen of harvesting the fruits of the customs union.

5-Agreeing on a suitable procedure for a common collection and distribution mechanism for the shares of the participant countries from these revenues is a crucial condition for ensuring the free flow of goods between the customs union members.

6- Unifying the industrial policies that are implemented among the GCC countries in order to ensure fair competition for the member states' products and to eliminate the variation in subsidies that are offered by some GCC countries for their national products which have affected negatively the Sultanate of Oman's exports to other member states.

7- Reconsidering the laws that are implemented in some GCC countries that are regarded as being against customs union principles and cause obstacles for GCC intra-trade, such as those providing protection for the sole domestic agent, which are strictly implemented in some GCC countries.

8- Reconsidering the trade policy in the Sultanate of Oman in order to stimulate the export and re-export sectors and create a free trade zone area that is able to attract investors from GCC countries and other world countries; also benefiting from Dubai's experiment in this field, which has become an attractive city for international investments

9- Eliminating the differences in Omani customs formalities, between those implemented in the ports and those in the border outlets, in order to reduce this phenomenon and support Omani businessmen, who prefer to import their goods indirectly through Dubai and abandon importing directly through Omani ports.

8.5 Suggestions for Further Research

1- Since the study covered a representative sample of all Omani businessmen, connected with different business activities, an intensive study needs to be made to find out the attitudes of specific groups of businessmen, belonging to specific sectors and their business activities that are closely related to customs union issues, such as those associated with the manufacturing sector, importers, exporters, and customs declaration agents.

2-Since this study was made at the time of the creation of the GCC customs union, and since the results of the new economic integration stage were not then available, some intensive research is needed to examine the effects of the customs union on the economies of the participant countries, especially after the conclusion of the customs union transitional phase and the introduction of the final stage.

3- Further research is needed to consider the influence of several customs union obstacles facing the economic integration process separately and collectively, like the role of incentives and governmental subsidies in distorting the intra-trade between the GCC countries. Also, the role of the similarity of GCC products in hindering intra-trade between the GCC countries, especially in the absence of any real desire amongst some of them to adopt and implement common industrial policies.

4-This research has only examined the attitude of the Omani businessmen towards the GCC economic integration process and customs union. Thus, more research is needed to assess GCC businessmen's attitudes towards the customs union, because the views of these important actors on economic integration are vital and will help to draw the future map of this economic integration process among the GCC countries.

5-More comparative studies are needed to compare the GCC economic integration experiment with that of the European Union, especially after the latter became an ideal example for every regional integration process in the world.

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APPENDIX A

Questionnaire

The Attitude of Omani Businessmen towards the Customs Union

First Personal Details:

1-Type of business Activity: Trade () Industry () Services ()

2-The capital of the firm: Less than 25,000 OR () between 25,000 and 50,000 OR () between 50,000 and 100,000 OR () between 100,000 OR and 250,000 OR () more than 250,000 OR ()

3-Educational level: Elementary () primary () Secondary () Undergraduate () Post graduate ()

4- Business experience period: less than 5 years () 5 to 10 years () 10 to 15 years () 15 to 20 years () more than 20 years ().

Second: The Questions

1-Where is the location of the GCC General Secretariat?

- () Abu-Dhabi
- () Muscat
- () Riyadh
- () Manama
- () Kuwait

2-Who is the current GCC general secretary?

- () Abdullah Yaqaob Bishara from Kuwait
- () Sheikh Fahem bin Sultan Alkasmi from UAE

- () Sheikh Jamil alhujailan from Saudi Arabia
- () Al-Attya from Qatar
- () non of the above

3- From your point view, which field of the cooperation and integration process is most successfully achieved within the GCC?

- () political
- () economic
- () military and security
- () all the above
- () none of the above

4- The move from the free trade area towards the customs union was a good step towards full GCC economic integration but not enough:

- () Strongly agree
- () agree
- () not sure
- () disagree
- () strongly disagree

5- Have you made any business visit to any GCC countries during the last 5 years

- () Yes once and to one country only (say the name of this country.....)
- () yes once, to more than one country
- () yes many times, to one country only (say the name of this country.....)
- () Yes many times, to more than one country
- () never

6- Omani exports to GCC Countries have been helped by the improved economic situation as a result of higher oil prices in the Gulf?

- () Strongly Agree
- () Agree
- () not sure
- () Disagree
- () Strongly Disagree

7-From your point of view, what was the most important step towards economic integration taken by GCC countries

- exemption of national products from customs tariff
- the GCC citizens move with ID only, without the need for passports.
- the establishment of the customs union and adopting a common tariff against the external goods.
- The decision to adopt the GCC single currency
- Non of the above

8- There are still some impediments confronting GCC intra-trade even after the establishment of the Customs Union:

- Strongly agree
- Agree
- not sure
- disagree
- strongly disagree

9-These impediments differ from one country to another

- Strongly agree
- Agree
- not sure
- disagree
- strongly disagree

10-Which country has the least trade impediments?

- UAE
- Bahrain
- Saudi Arabia
- Kuwait
- Qatar

11-Which country has the most serious trade impediments?

- UAE
- Bahrain

- Saudi Arabia
- Kuwait
- Qatar

12- The establishment of the customs union will help to eliminate all of the obstacles hindering the intra-trade among the GCC countries:

- Strongly agree
- Agree
- not sure
- disagree
- strongly disagree

13-I expect the volume of intra-trade among GCC countries will increase rapidly as a result of customs union formation:

- Strongly agree
- agree
- not sure
- disagree
- strongly disagree

14-The similarity of the GCC national products inhibits the GCC inter-trade

- Strongly agree
- agree
- not sure
- disagree
- strongly disagree

15-In your opinion, which of the following principles of customs union is very important and will play a positive role in improving intra-trade among the GCC States?

- adopting a common external custom tariff against products imported from outside The GCC.
- the free movement of goods among the Gulf States without customs or non-customs restrictions.

- () a common customs law and unified customs regulations and rules applicable in all member States.
- () treatment of the goods produced in any of the GCC country as national products
- () non of the above

16- Which of these factors is behind Omani businessmen preferring to import from the GCC neighbouring countries:

- () the huge size of the market and diversity of the offered goods
- () the low price of the commodities
- () the absence of the border customs point from these neighbouring countries side
- () the lack of information about the international markets
- () ease of mutual understanding and payment facilities.
- () All the above.

17-Tourism plays a role in motivating many Omnis to purchase from neighbouring markets

- () Strongly agree
- () agree
- () not sure
- () disagree
- () strongly disagree

18- The ease of Omani border customs formalities compared with the customs formalities in sea and air ports encourages many Omani people to import from GCC neighbouring countries.

- () strongly agree
- () agree
- () not sure
- () disagree
- () strongly disagree

19- The adopting of a common customs tariff will remove the difference in prices between GCC markets and will decrease the number of Omani people purchasing from the markets of neighbouring countries

- () Strongly agree

- agree
- not sure
- disagree
- strongly disagree

20- Which of these reasons are behind some Omani businessmen preferring to import their goods indirectly through neighbouring countries' ports rather than through domestic ports?

- High cost of shipment and insurance to Omani ports in comparison to neighbouring ports
- The high cost charges in Omani ports (such as tax of the land and handling)
- The period in which declaration is free of charges is too short.
- the lack of warehouses in the ports.
- the absence of a regular shipping between the Sultanate ports and the world
- difficulty in customs declaration procedures in Omani ports compared with neighbouring countries' ports
- all the above

21-Adopting a common customs law will remove the diversity in customs procedures between GCC countries and will encourage Omani businessmen to import directly through Omani ports

- strongly agree
- agree
- not sure
- disagree
- strongly disagree

22- I think that Omani exports to the GCC countries are still facing some impediments

- Strongly agree
- Agree
- not sure

- disagree
- strongly disagree

23- What are the obstacles which affect these exports?

- The large distance between the GCC markets and lack of appropriate means of transport
- low prices of locally-produced products in the importing countries
- low prices of foreign-produced products in the importing countries
- routine and administrative obstacles within the process of clearance and transit at the frontiers of the importing countries
- differing specification in some Gulf countries
- preference for local products against Gulf products in tenders within each country
- lack of information about the opportunities available in GCC markets
- Others (Say it.....)

24-The establishment of the customs union will help to increase Omani exports to GCC countries.

- Strongly agree
- agree
- not sure
- disagree
- strongly disagree

25-I think the GCC National products are the main competitor to Omani national products.

- Strongly agree
- agree
- not sure
- disagree
- strongly disagree

26-Adopting 5% as a common tariff among GCC countries without any protection for local industries will put these products in unfair competition with developed countries' products

- Strongly agree
- agree
- not sure
- disagree
- strongly disagree

27- Which Gulf country's products do you find most competitive in the Omani market?

- UAE
- Saudi Arabia
- Kuwait
- Qatar
- Bahrain
- none of the above

28- In regard to question 27, what factors allow this country to offer lower prices for its products than you?

- low unit price due to mass production
- low prices resulting from the disposal of surplus production
- direct or indirect governmental subsidy given to an industry
- low quality of exported goods
- low price of production inputs and services.
- All the above

29- Which of the following factors limit the export of products by industrial firms to Gulf markets?

- inability to compete in terms of quality
- high costs of products due to production, transport and service costs
- administrative obstacles in exporting and marketing in these countries.
- differences in specifications of products from country to country
- in-country preferences for in-country products
- Others (Say it.....).

30- I think that similar GCC national products have saturated the markets in the Gulf area because too many licenses have been issued for similar industries?

- strongly agree
- agree
- not sure
- disagree
- Strongly disagree

31- I think if the Gulf countries adopt common industrial policies and specifications, it will be in the interests of the GCC manufacturers

- strongly agree
- agree
- not sure
- disagree
- strongly disagree

32-I think the economic integration process among the GCC countries has been very slow during the last two decades, and it should be faster than before

- strongly agree
- agree
- not sure
- disagree
- strongly disagree

33-I think the establishment of the GCC monetary union and adopting a single currency will be a crucial step in the economic integration process

- strongly agree
- agree
- not sure
- disagree
- strongly disagree

34- The establishment of the GCC common market, where the free movement of goods, capital and people among the GCC countries, accompanied by common economic and fiscal policies, will be more fruitful for the GCC countries

- strongly agree
- agree
- not sure
- disagree
- strongly disagree

35- I think the enlargement of the Gulf market size through including new neighbouring markets, such as Yemen and Iraq, will favour GCC economies.

- strongly agree
- agree
- not sure
- disagree
- strongly disagree

APPENDIX B

The Focus Group Interview Questions:

1. During the last three years since the inception of the customs union, do you observe any improvements in the Omani economy as a result of the setting up of the CU, such as the growth of national product exports to GCC countries or an increase in volume of imports from those countries, or an easing of the customs procedures at GCC borders?
2. Will the Sultanate of Oman, through its membership of the GCC customs union, be able to overcome its chronic problems in its trade relations with GCC countries, such as the trade balance deficit and the intensive importing through GCC ports rather than the local ones.
3. - To what extent can the similarity of national products be regarded as an obstacle to developing intra-trade among the GCC countries? What are the available solutions to overcome this similarity in the GCC industries?
4. From your point of view, what factors are behind Omani businessmen's preference for importing from neighbouring countries, especially Dubai?
5. What are the reasons for some Omani businessmen preferring to import their goods indirectly through the ports of neighbouring countries rather than through domestic ones?
6. Will the establishment of the customs union help to increase Omani exports to GCC countries?
7. Do you think that adopting further integration steps among the GCC countries, such as a GCC common market and a GCC single currency, will be in the interests of Oman?
8. Do you think that the enlargement of customs union membership by the inclusion of new neighbouring markets, such as those of Yemen and Iraq, will be to the advantage of GCC countries' economies?
9. A huge increase in the number of tourists visiting Salalah during the summer season and an enormous number of GCC citizens participating in the Dubai shopping festival, have been observed. Do you think that the tourist sector, if it

continues at this rate of growth, will play a major role in promoting economic integration among the GCC countries?

10. Despite the relative success of GCC economic integration compared with many pan-Arab economic integration experiments, the economic integration process is in itself very slow. The GCC countries took about 23 years to move from a free trade area to a customs union. What are the reasons for this sluggish progress in economic integration? And will the move from the customs union stage to a common market and a monetary union take a similar amount of time?
11. It can be seen that the customs union does not offer special care to the industrial sector, especially by adopting a low single tariff, not exceeding 5%. This situation forced a state like Saudi Arabia to impose unilaterally a high tariff on some imported goods in order to protect its industries from what it regarded as unfair competition from the goods of the developed countries. Can you offer any solution to tackle this situation?
12. In spite of the creation of a customs union among GCC countries, many important CU issues are still unresolved, such as the collection and distribution of the customs revenues and the shares of the participant countries from these revenues. The postponement of such important issues leaves the future of the customs union in the balance and subject to the attitudes of its member states. What is your opinion about this situation?
13. Are you satisfied or dissatisfied with the effects of the customs union on the Omani economy and why?
14. Some GCC countries signed individually and unilaterally free trade agreements with countries like the United States. Do you think such a step clashes with customs union principles?

APPENDIX C

The Economic Agreement

Between the Gulf Cooperation Council States

(The Economic Agreement)

The GCC Member States,

Pursuant to the GCC Charter which calls for closer ties and stronger links among Member States; and

In the light of reviewing the economic achievements attained since the inception of the Council, including accomplishments attained by the Economic Agreement signed in 1981 in developing, which include enhancing and strengthening economic ties among Member States, and harmonizing their economic, financial and monetary policies, their commercial and industrial legislation and customs laws applicable therein, including the agreement on the customs union; and

Seeking to achieve advanced stages of economic integration that would lead to a Common Market and an Economic and Monetary Union among Member States according to a specific timetable, while enhancing market mechanisms and fostering the role of the private sector; and

Desiring to enhance the economy of the GCC Member States in the light of recent global economic developments, which require further integration among the Member States to strengthen their negotiating position and competitive capacity in international markets; and

Responding to the aspirations and expectations of GCC citizens towards achieving Gulf citizenship, including equality of treatment in the exercise of their rights to movement, residence, work, investment, education, health and social services,

Have hereby agreed as follows:

Chapter I

Trade

Article One: The Customs Union

Trade between the GCC member States will be conducted within the framework of a customs union that will be implemented no later than the first of January 2003. It shall include, at a minimum, the following:

- i. A common external customs tariff (CET).
- ii. Common customs regulations and procedures.
- iii. Single entry point where customs duties are collected.
- iv. Elimination of all tariff and non-tariff barriers, while taking into consideration laws of agricultural and veterinarian quarantine, as well as rules regarding prohibited and restricted goods.
- v. Goods produced in any Member State shall be accorded the same treatment as national products.

Article Two: International Economic Relations

To secure better terms and more favorable conditions in their international economic relationships, Member States shall draw their policies and conduct economic relations in a collective fashion in dealing with other countries, blocs and regional groupings, as well as other regional and international organizations.

Member States shall take the necessary measures to achieve this objective, including the following:

- i. Negotiate collectively in a manner that serves the negotiating position of the Member States.
- ii. Collectively conclude economic agreements with trading partners.
- iii. Unify import and export rules and procedures.
- iv. Unify commercial exchange policies with the outside world.

Chapter II

GCC Common Market

Article Three

GCC natural and legal citizens shall be accorded, in any Member State, the same treatment accorded to its own citizens, without differentiation or discrimination, in all economic activities, especially the following:

1. Movement and residence
2. Work in private and government jobs
3. Pension and social security.
4. Engagement in all professions and crafts
5. Engagement in all economic, investment and service activities
6. Real estate ownership
7. Capital movement
8. Tax treatment
9. Stock ownership and formation of corporations
10. Education, health and social services

Member States shall agree to complete implementation rules sufficient to carry this out and bring into being the Gulf Common Market.

Chapter III

Economic and Monetary Union

Article Four: Monetary and Economic Union Requirements

For the purpose of achieving a monetary and economic union between Member States, including currency unification, Member States shall undertake, according to a specified timetable, to achieve the requirements of this union. These include the achievement of a high level of harmonization between Member States in all economic policies, especially fiscal and monetary policies, banking legislation, setting criteria to approximate rates of economic performance related to fiscal and monetary stability, such as rates of budgetary deficit, indebtedness, and price levels.

Article Five: Investment Climate

For the purpose of enhancing local, external, and intra-GCC investment levels, and provide an investment climate characterized by transparency and stability, Member States agree to take the following steps:

1. Unify all their investment-related laws and regulations.
2. Accord national treatment to all investments owned by GCC natural and legal citizens.
3. Integrate financial markets in Member States, and unify all related legislation and policies.
4. Adopt unified standards and specifications for all products, according to the Charter of the GCC Standardization and Metrology Organization.

Article Six: Regional and International Aid

Member States shall coordinate their external policies related to international and regional development aid.

Chapter IV

Development Integration

Article Seven: Comprehensive Development

Member States shall adopt the policies necessary to achieve an integrated development process in all fields in all GCC states and deepen coordination between all activities contained in their national development plans. These policies shall include the implementation of the Long-term Comprehensive Development Strategy of the GCC Member States.

Article Eight: Industrial Development

- i. Member States shall adopt the policies necessary to enhance the participation of the industrial sector in the economy, coordination of industrial activity on a GCC-wide integrated basis, including the implementation of the Unified Strategy of Industrial Development for the GCC Member States.
- ii. Member States shall unify their industrial legislation and regulations, including rules related to industry promotion, anti-dumping, and precautionary safeguards.

Article Nine: Oil, Gas, and Natural Resources

For the purpose of achieving integration between Member States in the fields of petroleum and minerals industries, and other natural resources, and enhancing competitive position of Member States,

1. Member States shall adopt integrated policies in all phases of oil, gas, and minerals industries to achieve optimal exploitation of natural resources, while taking into account environmental considerations and the interests of future generations.

2. Member States shall adopt unified policies for oil and gas, and take common positions in this regard towards non-member states and at international and specialized organizations.

3. Member States and oil and gas companies working within them shall cooperate in supporting and developing research in the fields of oil, gas, and natural resources, and enhance cooperation with universities in these fields.

Article Ten: Agricultural Development

Member States shall adopt the policies necessary to achieve agricultural integration between them, and long-term optimal utilization of available resources, especially water, including the implementation of the Common Agricultural Policy of the GCC Member States and related GCC legislation.

Article Eleven: Environmental Protection

Member States shall adopt the policies and mechanisms necessary to protect the environment according to all relevant legislation and resolutions adopted within the GCC framework, as representing the minimum level for national rules and legislation.

Article Twelve: Joint Projects

For the purpose of enhancing ties between Member States in the productive sectors, utilizing economies of scale, achieving economic integration, and improving the distribution of integration benefits among them, Member States shall undertake the measures necessary to support, finance, and form joint projects, both private and public, including the following:

1. Adopt integrated economic policies between the Member States for infrastructure projects and basic services such as transport; communications; electricity; information technology; health, education, and tourism projects; and oil and gas industry.

2. Establish joint projects based on comparative advantages of Member States.
3. Provide additional incentives for the private sector to form joint projects that interlink the economic interests of GCC citizens.
4. Eliminate all procedural obstacles encountering joint projects and according them, at a minimum, the same treatment given to similar national projects.

Chapter Five

Development of Human Resources

Article Thirteen: Population Strategy

Member States shall implement the “General Framework of Population Strategy of the GCC States”, adopt the policies necessary for the development of human resources and their optimal utilization, provision of health care and social services, enhancement of the role of women in development, and the achievement of balance in the demographic structure and labor force to ensure social harmony in Member States, emphasize their Arab and Islamic identity, and maintain their stability and solidarity.

Article Fourteen: Compulsory Basic Education and Eradication of Illiteracy

1. Member States shall adopt the programs required for the total eradication of illiteracy in all GCC states according to a specific timetable, and enact necessary legislation to this effect.
2. Member States shall adopt a timetable for the implementation of compulsory basic education and enact necessary legislation to this effect.

Article fifteen: Education

1. Member States shall cooperate to develop programs and curricula of public, higher, and technical education, to ensure high levels of scientific content and compatibility with the development needs of Member States.

2. Member States shall undertake to achieve integration between GCC universities in all fields.
3. Member States shall adopt appropriate policies and mechanisms to ensure compatibility between the outputs of higher education and scientific and technical research on the one hand, and the needs of the labor market and economic development, on the other.

Article Sixteen: Manpower Nationalization

1. Member States shall undertake the policies necessary to develop and unify their labor rules and legislation, eliminate all obstacles restricting intra-GCC movement of national labor force. GCC citizens working in a member State other than their countries of citizenship shall be included within the percentages set for manpower nationalization.
2. Member States shall adopt unified criteria for job description and classification for all professions and trades in all sectors, and undertake to develop and exchange all information related to their labor markets, including unemployment rates, job opportunities and training programs.

Article Seventeen: Increasing Labor Participation Rates and Training of Nationals

- i. Member States shall adopt effective policies to increase participation rates of nationals in the labor market, especially in high-skill jobs, and adopt effective programs to raise the skill levels of national labor force, develop on-the-job training programs, participate in financing such programs, and provide incentives for job seekers in the private sector. Aid granted to the private sector shall be linked with the adoption of programs intended for the employment and training of national manpower.
- ii. Member States shall adopt the policies necessary for rationalizing the employment of foreign workers.

Chapter VI

Scientific and Technical Research

Article Eighteen: Scientific and Technical Research

Member States shall adopt, as basic priorities for development, policies to support joint scientific and technical research, and develop their own joint scientific, technical, and information technology databases, including the adoption of the following policies:

1. Increase the funds allocated to scientific and technical research.
2. Encourage and provide the necessary incentives to the private sector to contribute to the funding of specialized scientific and technical research,
3. Ensure that international companies operating in the GCC States sponsor specialized programs for scientific and technical research in the Member States.
4. Establish a native scientific, technical, and information technology base that fully utilizes the expertise of international and regional organizations.
5. Integrate scientific research institutions in the GCC States in order to develop and activate the scientific, technical, and information technology base referred to in this article and work jointly to set up common research centers.

Article Nineteen: Utilization of the Scientific, Technical, and Information Technology Base

For the purposes of developing and fully utilizing their scientific, technical, and information technology base, Member States shall take the following measures, as a minimum:

1. Develop mechanisms for achieving optimal utilization of scientific and technical research in both public and private sectors, and continued coordination between the executive bodies on the one hand and the outputs of the scientific, technical, and information technology base, on the other.

2. Make the outputs of the scientific, technical, and information technology base available to specialists, researchers, businessmen, and investors through simplified procedures.
3. Support and develop technical information networks, systems and centers in member states, and adopt programs to facilitate information dissemination and exchange among the institutions of scientific and technical research in the GCC States.

Article Twenty: Intellectual Property

Member States shall develop programs encouraging talented individuals and supporting innovation and invention; cooperate in the field of intellectual property and develop regulations and procedures ensuring protection of intellectual property rights; and coordinate their relevant policies towards other countries, regional blocs and international and regional organizations.

Chapter VII

Transportation, Communication, and Infrastructure

Article Twenty-one: Means of Transportation

Member States shall accord all means of passenger and cargo transportation belonging to any Member State, while transiting or entering their territories, the same treatment accorded to their national means of transportation, including the level of duties, taxes and facilities.

Article Twenty-two: Marine Transportation Services

Member States shall accord marine means of transportation belonging to any Member State and cargoes thereof the same preferential treatment they grant to their national counterparts in the use of their facilities, whether during docking or while calling at their ports, including fees and taxes, as well as services of pilotage, docking, freight, loading, unloading, maintenance, repair and storage.

Article Twenty-three: Infrastructure Integration

1. Member States shall adopt integrational policies for the establishment of the infrastructure projects such as seaports, airports, desalination plants, electric power stations, and roads. These policies should aim to facilitate trade exchange between member states, realize common economic development, and interlink their economic activities.
2. Member States shall take the necessary measures to ensure integration of their aviation and air transport policies.
3. Member States shall develop and integrate the various means of land and marine transportation in order to facilitate the movement of citizens and goods and achieve economies of scale.

Article Twenty-four: Communications

Member States shall take all the necessary measures to ensure the integration of their communication policies, including telecommunication, post and data network services, which would lead to improving their service levels and economic efficiency and to strengthening the ties between GCC citizens as well as private and public institutions.

Article Twenty-five: Electronic Commerce

Member States shall take all necessary actions to facilitate banking and trade exchange through electronic means of communication, and unify their electronic commerce legislation.

Chapter VIII

Mechanisms for Implementation and Follow-up

Article Twenty-six: Implementation of the Agreement

1. Committees working under the framework of the GCC shall implement this Agreement, each within its competence.
2. The Secretariat General shall follow up implementation of the Agreement.
3. Member States shall provide the Secretariat General with periodic reports regarding implementation of the provisions of this Agreement and the applicable resolutions taken to implement those provisions. In the light of these reports, the Secretary General shall submit a comprehensive periodic report to the Supreme Council. The Secretariat General shall set a mechanism for the preparation of these reports, their contents, and the completion dates thereof.

Article Twenty-seven: Settlement of Disputes

1. The Secretariat General shall hear and seek to amicably settle any claims brought by any GCC citizen or official entity, regarding non-implementation of the provisions of this Agreement or enabled resolutions taken to implement those provisions.
2. If the Secretariat General could not settle a claim amicably, it shall be referred, with the consent of the two parties, to the GCC Commercial Arbitration Center to hear the dispute according to its Charter. Should the two parties not agree to refer the dispute to arbitration, or should the dispute be beyond the competence of the Center, it shall be referred to the judicial body set forth in Paragraph 3 of this Article.
3. A specialized judicial commission shall be formed, when deemed necessary, to adjudicate disputes arising from the implementation of this Agreement or resolutions for its implementation. The Financial and Economic Committee shall propose the charter of this commission.

4. Until the charter of the commission referred to in paragraph (3) above comes into force, all disputes which the two parties do not agree to settle through arbitration and which could not be amicably settled by the Secretariat General, shall be referred to the competent GCC committees for settlement.

Chapter IX

Final Provisions

Article Twenty-eight: Ratification and publication

Member States shall take all measures necessary to ratify this Agreement and the relevant resolutions for its implementation, publish them in the official notification media, and implement them according to their provisions.

Article Twenty-nine: Coming into force

This Agreement shall come into force after being ratified by all Member States. The Secretariat General shall notify member States of the date of its coming into force.

Article Thirty: Exclusion

A Member State may be granted a temporary exclusion from implementing certain provisions of this Agreement as may be necessary due to temporary local situations prevailing in that State or specific circumstances encountered. Such exclusion shall be for only a limited period and shall be authorized only by a resolution from the Supreme Council.

Article Thirty-one: External bilateral agreements

No Member State may grant to a non-Member State any preferential treatment exceeding that granted herein to Member States, nor conclude any agreement that violates provisions of this agreement.

Article Thirty-two: Precedence of the provisions of the Agreement

1. The provisions of this Agreement shall have prevail if found in disagreement with local laws and regulations of the Member States.
2. This Agreement shall supersede the GCC Economic Agreement signed in 1981 AD (1402 AH), and the provisions contained herein shall supersede equivalent provisions set forth in bilateral agreements (between member states).
3. Until the GCC Customs Union is established, the provisions of Article 3 of the GCC Economic Agreement signed in 1981 AD (1402 AH) shall continue to be applied. The percentage of the added value provided for in said Article may be amended by a decision of the Financial and Economic Committee.

Article Thirty-three: Amendment and Interpretation

1. This Agreement may not be amended without approval of the Supreme Council.
2. The Financial and Economic Committee shall be authorized to interpret this Agreement.

Signed in the city of Muscat (Sultanate of Oman) on Monday, 16 Shawwal 1422 AH, corresponding to 31 December 2001 AD.

His Highness Shaikh Zayed ibn Sultan Al Nahayyan

President, United Arab Emirates

Signing for His Highness:

His Highness Shaikh Maktoum ibn Rashed Al Maktoum

Vice President, United Arab Emirates

Prime Minister, Governor of Dubai

His Highness Majesty Shaikh Hamad ibn Issa Al Khalifah

Emir of the State of Bahrain

Custodian of the Two Holy Mosques, King Fahd ibn Abdel-Aziz Al Saud

King of Saudi Arabia

Signing for His Majesty:

His Royal Highness, Prince Abdallah ibn Abdelaziz Al Saud

Crown Prince, Deputy Prime Minister, and Commander of the National Guard,
Kingdom of Saudi Arabia

His Majesty Sultan Qaboos ibn Saeed

Sultan of Oman

His Highness Shaikh Hamad ibn Khalifah Al Thani

Emir of the State of Qatar

His Highness Shaikh Jaber Al Ahmad Al Jaber Al Sabah

Emir of the State of Kuwait

Signing for His Highness:

His Excellency Shaikh Sabah Al Ahmad Al Jaber Al Sabah

Deputy Premier and Minister of Foreign Affairs

APPENDIX D

GCC CHARTER

COOPERATION COUNCIL

FOR

THE ARAB STATES OF THE GULF

The United Arab Emirates
The State of Bahrain
The Kingdom of Saudi Arabia
The Sultanate of Oman
The State of Qatar, and
The State of Kuwait

Being fully aware of the ties of special relations, common characteristics and similar systems founded on the creed of Islam which bind them; and

Desiring to effect coordination, cooperation and integration between them in all fields; and,

Having the conviction that coordination, cooperation, and integration between them serve the sublime objectives of the Arab Nation; and,

Having the conviction that coordination, cooperation, and integration between them serve the sublime objectives of the Arab Nation; and,

In pursuit of the goal of strengthening cooperation and reinforcement of the links between them; and

In an endeavour to complement efforts already begun in all essential areas that concern their peoples and realize their hopes for a better future on the path to unity of their States; and

In conformity with the Charter of the League of Arab States which calls for the realization of closer relations and stronger bonds; and

In order to channel their efforts to reinforce and serve Arab and Islamic causes,

Have agreed as follows:

ARTICLE ONE

The Establishment of the Council

A Council shall be established hereby to be named The Cooperation Council for the Arab States of the Gulf hereinafter referred to as the Cooperation Council (GCC).

ARTICLE TWO

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

ARTICLE THREE

Cooperation Council Meetings

The Council shall hold its meetings 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 inter-connection between Member States in all fields in order to achieve unity between them.

2. To deepen and strengthen relations, links and areas of cooperation now prevailing between their peoples in various fields.
3. To formulate similar regulations in various fields including the following:
 - a. Economic and financial affairs
 - b. Commerce, customs and communications
 - c. Education and culture
4. To stimulate scientific and technological progress in the fields of industry, mining, agriculture, water and animal resources; to establish scientific research; to establish joint ventures and encourage cooperation by the private sector for the good of their peoples.

ARTICLE FIVE

Council Membership

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

ARTICLE SIX

Organization of the Cooperation Council

The Cooperation Council shall have the following main organizations:

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

Each of these organizations may establish sub-agencies as may be necessary.

ARTICLE SEVEN

Supreme Council

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

1. The Supreme Council is the highest authority of the Cooperation Council and shall be formed of heads of member states. Its presidency shall be rotatory based on the alphabetical order of 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.
3. The Supreme Council shall hold its sessions in the territories of member states.
4. A Supreme Council's meeting shall be considered valid if attend by two-thirds of the member states.

ARTICLE EIGHT

The Functions of the Supreme Council

The Supreme Council shall endeavour to realize the objectives of the Cooperation Council, particularly as concerns 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 joint ventures 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 the Settlement of Disputes and nominate its members.

7. Appoint the Secretary-General.
8. Amend the Charter of the Cooperation Council.
9. Approve the Council's internal rules of procedure.
10. Approve the budget of the Secretariat General.

ARTICLE NINE

Voting in the Supreme Council

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

1. Each member of the Supreme Council shall have one vote.
2. Resolutions of the Supreme Council in 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 majority vote.

ARTICLE TEN

Commission for the Settlement of Disputes

1. The Cooperation Council shall have a commission called "The Commission for the Settlement of Disputes" which shall be attached to the Supreme Council.
2. The Supreme Council shall establish the composition of the Commission for every case on an "ad hoc" basis in accordance with 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 the Settlement of Disputes.

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

ARTICLE ELEVEN

Ministerial Council

1. The Ministerial Council shall be formed of the Foreign Ministers of the member states or other delegated ministers. The Council Presidency shall be for the member state, which presided the last ordinary session of the Supreme Council, or if necessary, for the state which is next to preside the Supreme Council.
2. The Ministerial Council shall convene every three months and may hold extraordinary sessions at the invitation of any member seconded by another member.
3. The Ministerial Council shall determine the venue of its next session.
4. A Council's meeting shall be deemed valid if attended by two-thirds of the member states.

ARTICLE TWELVE

Functions of the Ministerial Council

1. Propose policies, prepare recommendations, studies and projects aimed at developing cooperation and coordination between member states in various fields and adopt the resolutions or recommendations required in this regard.
2. Endeavour to encourage, develop and coordinate activities existing 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 effect.

4. Encourage means of cooperation and coordination between the various private sector activities, develop existing cooperation between the member states' Chamber of Commerce and Industry, and encourage the movement within the GCC of workers who are citizens of the member states.
5. Refer any of the various aspects of cooperation to one or more technical or specialised committee for study and presentation of appropriate recommendations.
6. Review proposals related to amendments to this Charter and submit appropriate recommendations to the Supreme Council.
7. Approve Rules of Procedure of both the Ministerial Council and the Secretariat General.
8. Appoint the Assistant Secretaries-General, as nominated by the Secretary-General, for a period of three year, renewable.
9. Approve periodic reports as well as internal rules and regulations relating 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 meetings of the Supreme Council and prepare its agenda.
11. Review matters referred to it by the Supreme Council.

ARTICLE THIRTEEN

Voting in the Ministerial Council

1. Every member of the Ministerial Council shall have one vote.
2. Resolutions of the Ministerial Council in substantive matters shall be carried by unanimous vote of the member state present and participating in the vote, and in procedural matters by majority vote.

ARTICLE FOURTEEN

The Secretariat General

1. The Secretariat General shall be composed of a Secretary-General who shall be assisted by assistants 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 once only.
3. The Secretary-General shall nominate the Assistant Secretaries-General.
4. The Secretary-General shall appoint the Secretariat General staff from among the citizens of member states, and may not make exceptions without 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 limits of the authority vested in him.

ARTICLE FIFTEEN

Functions of the Secretariat General

The Secretariat General shall:

1. Prepare studies related to cooperation and coordination, and to integrated plans and programmes for member states' action.
2. Prepare periodic reports on the work of the Cooperation Council.
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 requested 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 budgets and closing accounts of the Cooperation Council.
7. Make preparations for meetings and prepare agendas and draft resolutions for the Ministerial Council.
8. Recommend to the Chairman of the Ministerial Council the convening of an extraordinary session of the Council when necessary.
9. Any other tasks entrusted to it by the Supreme Council or Ministerial Council.

ARTICLE SIXTEEN

The Secretary-General and the Assistant Secretaries-General and all the Secretariat General staff shall carry out their duties in complete independence and for the joint benefit of the member states.

They shall refrain from any action or behaviour that is incompatible with their duties and from divulging confidential matters relating to their appointments either during or after their tenure of office.

ARTICLE SEVENTEEN

Privileges and Immunities

1. The Cooperation Council and its organizations shall enjoy on the territories of all member states such legal competence, privileges and immunities as are required to realize their objectives and carry out their functions.
2. Representatives of the members 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 between the member states. A special agreement shall organize the relation between the Council and the state 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 in equal amounts.

ARTICLE NINETEEN

The Implementation of the Charter

1. This Charter shall go into effect as of the date it is signed by the Head of States of the six member states named in this Charter's preamble.
2. The original copy of this Charter shall be deposited with the Ministry of Foreign Affairs of the Kingdom of Saudi Arabia which shall act as custodian and 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 the Charter

1. Any member state may request an amendment of this Charter.
2. Request 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 unanimously approved by the Supreme Council.

ARTICLE TWENTYONE

Closing Provisions

No reservations may be voiced in respect of the provisions of this Charter.

ARTICLE TWENTYTWO

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 the Arabic language at Abu Dhabi City, United Arab Emirates, on 21 Rajab 1401 corresponding to 25 May 1981.

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

