

## **GRC forecasts economic highs, security lows in the Gulf**

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The Gulf in 2007 is likely to witness a period of robust economic growth, continuation of political innovations, rising regional instability due to events in Iran and Iraq, and unchallenged presence of the United States as the security guarantor, according to experts at the Dubai-based Gulf Research Center (GRC).

The forecasts were made during the GRC's fourth annual conference on January 11 while releasing the findings of the "Gulf Yearbook 2006-2007". The event was attended by a number of officials, intellectuals and business executives from both the Gulf region and outside.

The Gulf Yearbook – the GRC's premier publication – is an annual compendium of analyses on events in the Gulf region during the previous year, with forecasts for the next. The essays by scholars delve into political, diplomatic, economic, security and energy issues related to the Gulf Cooperation Council (GCC) countries, as well as Iran, Iraq and Yemen. The "Gulf Yearbook" will be published in Arabic and English and will be available in print and digital formats by the end of March.

In his opening remarks, the GRC Chairman, Abdulaziz Sager, highlighted important issues that transpired during the last year. "The conference is being held at a time when the Gulf region is passing through a dangerous phase, especially in light of the tragic situation in Iraq, which is akin to a civil war, and holds the potential to disintegrate. There is also the complication of the Iranian nuclear file in light of the faltering diplomatic efforts and the sanctions imposed by the United Nations Security Council, which may even lead to a military confrontation," he said.

The Gulf Yearbook, Sager added, "discerns and analyzes the new developments in the region, but avoids preconceived judgments in interpreting them."

### Political

Elaborating the findings of the Yearbook, Prof. Hasanain Tawfiq of the Zayed University and an Editorial Board Member at the GRC said that the most important step in the political changes being attempted in the GCC countries during 2006 was the Saudi move to establish a legal framework for political succession. It "demonstrated the unity and stability of the royal family, and prevents the possibility of future divisions within the ruling elite."

The role played by the National Assembly in the succession row in Kuwait was highlighted as a demonstration of proactive role that the parliaments are beginning to play in the region. "The same was the case with opposition groups and their relationship with the ruling elites," he said. The strained relationship between the government and opposition MPs in Kuwait over issues relating to electoral constituencies, corruption charges and other policies in the fields of education, press freedom, settlement of bad debts, and external relations were also cited as examples.

In Bahrain too, the opposition and the government witnessed differences regarding naturalization of expatriates, mechanism and guarantees of fair elections, and "Al-Bandar Report". "But the elections and the results thereafter proved that the government had shown great flexibility," Prof. Tawfiq said.

Referring to the UAE's experiment with elections to the Federal National Council and the forthcoming municipal polls in Qatar, the academic said that they set the stage for progress in the region's attempts at political innovations and improvements in issues relating to election campaigns, results, transparency, and role of women.

### International Relations

Dr. Christian Koch, Director of International Studies, GRC, said 2006 witnessed a steady deterioration in regional stability: "Despite efforts by the United States to undertake a more realistic assessment of the Iraq situation, Washington did not have any solution that could quell the violence."

Further, Iran's sense of confidence and its willingness to take tough positions "raises fears that the Arab Gulf States could find themselves in a situation that is not of their own making," he added.

Though ties with both Asia and Europe were expanding, 2006 also underlined that in terms of Gulf security, no other international actor would replace the US in the short or medium term. "While Europe and Asia have expressed their concerns about the regional security environment, neither side is ready to invest in the hard security mechanisms that the Gulf requires."

## Economy

In his overview of the GCC economies in 2006, Dr. Eckart Woertz, Program Manager, Economics, said that "the long-term outlook of oil price remains positive, although there might be some soft spots over the next two years due to an economic slowdown in the US and China, and some incremental oil production coming on the market from non-OPEC countries like Brazil. A part of the oil price surge of recent years can be attributed to a decline in spare capacity, but the current OPEC production cuts ironically might lead to lower prices should the market perceive them as a recovery of such spare capacity."

On the international level, Dr. Woertz stressed the increased importance of the GCC countries in financing the US current account deficit. With the GCC current account surpluses now larger than even China's, petrodollar recycling and the investment options of GCC countries are naturally followed closely by the international banking circuit. "As the US deficit continues to mount, the dollar is likely to slide further and the GCC countries need to worry about currency diversification and modification of their currency peg to the dollar," he said.

On the negative side, the problem of rising inflation in smaller Gulf States and the necessity for statistical reform and more accurate data was stressed. In light of the stock market corrections in 2006, Dr. Woertz pointed to the need for improved corporate governance, transparency and broader capital market development. The further development of a GCC bond market and the unification of the local capital markets were crucial, he said, and discussed dangers of overheating and duplication of similar investment and real estate projects. "The Geopolitical tension caused by the Iranian nuclear stand-off could hurt investment sentiment," he warned.

## Security and Defense

In his presentation, Dr. Mustafa Alani, Director of Security and Terrorism Program, said 2006 witnessed a general decline in terrorist activities in the GCC countries largely due to the Saudi preemptive anti-terror efforts against Al-Qaeda cells, but an upsurge in Iraq casualties – a record high of about 3,000 every month, with the number of wounded almost three times that figure.

"On an average, there were about 40 kidnapping incidents daily, and the total number detained on security grounds reached about 30,000," he said.

In the defense arena, the academic pointed out that there was considerable increase in defense spending and procurement of weapons: "The GCC countries signed 13 deals worth \$ 35 billion, most of them with Western countries."

Failure to stabilize the situation in Iraq will have catastrophic consequences for the Gulf region and beyond. On the other hand, the lack of resolve in tackling the Iranian nuclear program would perpetuate the crisis, lead to a possible arms race and invite more foreign interventions in the Gulf," Dr Alani said, adding: "It is certain that 2007 will inherit most of the security problems that engulfed the Gulf region last year."

## Environment

On the state of the environment and natural resources, Dr. Mohamed Raouf, Senior Researcher, Environment Program, said that "the GCC countries are very poor in terms of arable lands and water resources, and contribute about 2.4 percent of world CO2 emissions though they have just 0.5 percent of the world's population."

Among the main environmental challenges, he listed the fallout of an accident in or military strike on Iran's nuclear facilities, as well as the building and demolition debris associated with the construction boom in the region.

"One would like see a culture of sustainable development developing, where environment and natural resources get maximum attention in every decision and at all levels. This can only be achieved by an policy mix which addresses different environmental issues, assigns a more active role for civil society organizations in decision-making and implementing plans, and encourage public-private partnerships," Dr Raouf added.