

## Topic Page: [Gulf Cooperation Council](#)

Definition: **Gulf Cooperation Council** from *Merriam-Webster's Geographical Dictionary*

Economic and political organization, consisting of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates; headquarters Riyadh, Saudi Arabia; estab. 1981.

### Summary Article: **Gulf Cooperation Council**

From *The Princeton Encyclopedia of the World Economy*

The Gulf Cooperation Council (GCC) was created in February 1981 by six Arab Gulf states: Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates (UAE). The main motive for the creation of the GCC was to face the threat posed to the region's security by the Iran-Iraq war at that time. The aims of the GCC formation are to develop cooperation and integration among the member states on foreign and defense policies and to promote common interest in economic, social, and cultural affairs. A customs union that allows no tariffs or other barriers to trade among members (as in free trade areas) and harmonizes trade policies (such as setting of common tariff rates) toward the rest of the world was created between GCC members in January 2004.

Members of the GCC share common features such as religion, language, historical background, and social life. The GCC economies depend on similar natural resources and have a comparable structural base. The GCC members also share the same sociopolitical system in which the states, ruled by kings and princes, own most of the natural resources and the large public sector dominates all aspects of the economy.

The GCC population as of 2005 was approximately 36 million. Saudi Arabia has the largest population base compared to the other five members. Approximately 38 percent of the total GCC population is composed of expatriates with no permanent residence. The proportion of nationals out of the total population varies from one country to another. This ratio is very small in Kuwait, Qatar, and the UAE (35, 27, and 22 percent, respectively), compared to Bahrain, Oman, and Saudi Arabia (62, 78, and 72 percent). Even though the GCC fertility rate is among the highest in the world, their economic dependence on foreign labor is not decreasing.

GCC social indicators depict a very positive human development profile. Life expectancy is well above 70 years, infant mortality is far below the world average, and the population per physician is very low. However, fertility rates in most GCC countries are among the highest in the world, reflecting generous family allowances provided by governments in order to increase the population base. Finally, education spending has contributed to declining illiteracy rates.

Expatriates constitute the largest percentage of the labor force in GCC countries. Table 1 shows that approximately one-third of the total labor force in GCC countries are citizens while two-thirds are expatriates. The percentage of citizen labor force in the states of Kuwait and the UAE is less than 20 percent. Only in Saudi Arabia is the percentage of citizens in the labor force slightly greater than 50 percent of the total labor force. The greatest majority of GCC employees are working in the public sector, and the average wages and salaries of GCC citizens are almost three times higher than those of expatriates.

GCC economies depend entirely on the production of oil, and all economic sectors revolve around

revenues generated by oil exports. The exploration for oil began in the Gulf region in 1945. The Gulf oil has been important in the global energy market for many reasons. First, the oil reserves of the GCC are huge in comparison to the world's total reserves. The GCC oil reserves constitute around 50 percent of the world total. Second, the GCC plays a significant role in the supply of oil to the world market. The share of the GCC in total world production is approximately 25 percent. Third, geological factors such as the location of the onshore oil fields close to the deep Persian Gulf, the flow of the oil toward the sea, and the ease of drilling have helped the GCC's oil to be produced relatively more cheaply than the rest of world's oil. Finally, the central geographical location of the Persian Gulf between the developed economies in the West and growing economies of East Asia has reduced transport costs and increased the significance of the GCC oil market.

Table 1 The GCC labor force in 2005 (thousands)

	<b>Bahrain (%)</b>	<b>Kuwait (%)</b>	<b>Oman (%)</b>	<b>Qatar (%)</b>	<b>SA (%)</b>	<b>UAE (%)</b>	<b>GCC (%)</b>
Citizens	145 (41.7)	327 (19.5)	205 (31.1)	41 (44.1)	3,469 (51.3)	450 (15.7)	4,637 (37.4)
Expatriates	203 (58.3)	1,349 (80.5)	454 (68.9)	52 (55.9)	3,289 (48.7)	2,411 (84.3)	7,758 (62.6)
Total	348 (100)	1,676 (100)	659 (100)	93 (100)	6,758 (100)	2,861 (100)	12,395 (100)

*Sources:* The Cooperation Council for the Arab States of the Gulf: Statistical Bulletin, 2006. Ministry of Planning in various GCC countries.

Table 2 reveals that, at the end of 2005, oil reserves in GCC countries were approximately 470 billion barrels, oil products exceeded 15 million barrels per day, and oil revenue was approximately \$187 billion. Saudi Arabia is the largest oil producer in the GCC countries, followed by Kuwait and the UAE. However, Qatar and Oman have much smaller oil reserves, and much less oil production and oil revenue, than these three members of the GCC. Bahrain seems to be losing its dependence on oil.

The petroleum and mining contribution to GDP in GCC countries constitutes 20 to 60 percent of total gross domestic product (GDP). This contribution is higher when oil prices rise. The contribution was the highest in Qatar (61 percent) and the lowest in Bahrain (22 percent) in 2005. The second most important economic activity is the services sector (wholesale and retail trade, transportation and communication, finance and insurance, real estate). The services sector contributes 20 to 30 percent of GDP. The contribution of the service sector in 2005 was 51 percent in Bahrain (which is no longer a major oil producer) and 15 percent in Qatar (which depends heavily on its production of oil and natural gas). The third most important sector is the government, which contributes 10 to 20 percent of GDP. The manufacturing sector plays a moderate role in all members of the GCC. This sector contributes only 6 to 10 percent of GDP. The only exception is its contribution in the United Arab Emirates in 2005, which amounted to 14 percent. Contribution of the agricultural sector to GDP is negligible in most GCC countries and was only 4 percent in Saudi Arabia in 2005. The GCC members heavily subsidized the state-owned electricity, gas, and water sector.

Table 2 GCC oil production, revenue, and reserves in 2005

	<b>Bahrain</b>	<b>Kuwait</b>	<b>Oman</b>	<b>Qatar</b>	<b>Saudi Arabia</b>	<b>UAE</b>	<b>GCC</b>
Oil reserves (billion barrels/year end)	0.12	96.8	5.8	4.5	264.5	99	470.72
Oil production (thousand of barrels/daily)	36	2,318	816	792	8,958	2,518	15,436
Oil revenue (\$M)	2,700	27,340	8,312	8,124	110,654	30,124	187,254

*Sources:* The Cooperation Council for the Arab States of the Gulf: Statistical Bulletin, 2006. Ministry of Planning in various GCC countries.

The level of per capita income differs significantly among members of the GCC. Per capita income in the state of Qatar was the highest in 2005 (\$39,101), while per capita income in Oman was the lowest (\$9,939). Per capita income in all GCC members was approximately \$14,346 in 2005.

The proportion of total expenditure on exports and imports constituted a significant proportion of GDP. Re-exporting is a major part of the Bahrain and UAE total exports (around 30 percent). The proportion of total expenditure on private consumption out of GDP is much lower than in countries with similar per capita income (around 35 percent) and is especially low in the state of Qatar (15 percent of GDP in 2005). Expenditure on public consumption was approximately 20 percent of GDP in the states of Kuwait, Oman, and Saudi Arabia in 2005.

The percentage of GDP devoted to gross fixed capital formation in the GCC countries varies from less than 15 percent in the case of Kuwait to 25 percent in the case of the UAE. The government carries out a large percentage of investment in these countries. Public investment has been concentrated mainly in infrastructure and the oil sector, including petrochemical industries. Private fixed capital formation, on the other hand, was directed mainly to the construction sector and the (modest) manufacturing sector. Public investment is, to a great extent, autonomous of changes in demand and interest rates and is financed from government oil revenue. Private investment depends heavily on growth in private consumption, which is greatly affected by growth in government expenditure in the GCC countries. This suggests that total (public and private) investment in the GCC countries depends on lagged oil revenues.

Table 3 Total trade and intratrade of members of the GCC Customs Union (1981–2005)

	1981			1989			1997			2005		
	Total trade (US\$M)	Intra-trade (US\$M)	% of intra-trade to total trade	Total trade (US\$M)	Intra-trade (US\$M)	% of intra-trade to total trade	Total trade (US\$M)	Intra-trade (US\$M)	% of intra-trade to total trade	Total trade (US\$M)	Intra-trade (US\$M)	% of intra-trade to total trade
Bahrain	8,471	3,750	44.3	5,849	1,427	24.4	10,468	1,415	13.5	18,283	2,564	14.0
Kuwait	23,161	878	3.8	17,425	677	3.9	23,011	1,055	4.6	34,516	1,654	4.8
Oman	6,695	560	8.4	6,620	3,352	50.6	12,509	2,325	18.6	19,165	3,437	17.9
Qatar	6,907	180	2.6	3,828	330	8.6	8,376	572	6.8	21,019	1,507	7.2
SA	148,472	3,371	2.3	49,537	2,721	5.5	89,135	5,446	6.1	155,412	6,993	4.5
UAE	30,604	1,494	4.9	26,034	1,354	5.2	54,231	2,988	5.5	114,613	6,078	5.3
All GCC members	217,403	10,233	4.7	109,293	9,861	9.0	197,910	13,801	7.0	363,008	22,233	6.1

The GCC countries depend heavily on the outside world for the supply of most of their needs (Metwally and Tamaschke 1980; Metwally and Daghistani 1987). This is because of the relatively weak productive capacity of these economies due to lack of resources, particularly labor, materials, and water. The downturn in oil prices after the end of 1982 resulted in a sharp reduction in GCC spending on imports (Metwally 1993). However, the proportion of GDP spent on imports of goods and services in 2005 (following the rise in oil prices) was approximately 40 percent. Moreover, available statistics suggest that the income elasticity of imports exceeds one in many GCC members (Metwally 2004a, b).

Many studies have developed econometric techniques and models to identify functional relationships in the GCC economies. Metwally (1987, 1993) attempted to examine the determinants of the external surplus or gap between exports and imports of the oil-producing members of the GCC. In spite of the sharp rise in oil prices during the 1970s, the GCC countries could not improve their external surplus per exported barrel. This indicated that the rise in oil prices was greatly matched by a larger increment in imports and by the fall in the volume of exports. Metwally tested the hypothesis that the external surplus balance varies inversely with GDP. In contrast to economic theory, the results showed that the external surplus is positively correlated with GDP in the case of GCC countries. The result was explained by the fact that total GDP in the GCC countries is dominated by oil revenues, which are owned by government and are not directly available for domestic expenditure. Thus an increase in oil exports would increase total GDP and add to the overall surplus. When non-oil income was used instead of total GDP, a significant negative correlation was obtained between non-oil income and the external surplus. Metwally also tested the interaction between the economies of the GCC and the rest of the world. The oil exports of the GCC responded favorably to the increase in the share of the Organization of the Petroleum Exporting Countries (OPEC) in world oil supply and the increase in world oil consumption. Finally, the marginal propensity to import out of non-oil income was extremely high in all GCC countries. This resulted in an “import trap,” i.e., a tendency to increase imports even when the

value of exports is declining (Metwally 1993; Metwally and Rammadhan 2000; Metwally 2003).

Table 3 gives data on total trade and intra-trade of members of the GCC customs union during the period 1981–2005. It is clear that the rise in oil prices resulted in higher rates of growth of intra-imports and intra-exports of most members of the GCC (Metwally and Alsowaidi 2005). Also, most commodities produced in GCC countries are not substitutes for commodities imported from outside countries. A rise in oil prices results in an increase in intra-exports due to improvement of domestic productive capacity through use of advanced technology. The analysis of Kaul, Metwally, and Perera (2007) suggests that intra-trade of most GCC members is strongly influenced by oil prices. The results also suggest that intra-exports of Qatar, Saudi Arabia, and the UAE are positively related to their intra-imports. These results also indicate that there are very significant feedback effects in intra-trade of Qatar, Saudi Arabia, and the UAE. An increase in these members' intra-imports results in an increase in their importers' incomes. However, there are no significant feedback effects in intra-trade of Bahrain, Kuwait, and Oman. These members might benefit from giving more attention to dynamic benefits of their customs union.

See *also* customs unions; migration, international; Organization of the Petroleum Exporting Countries (OPEC); petroleum; primary products trade; regionalism

#### **FURTHER READING**

- Kaul, Nandini, Metwally, M. M., and Perera, Nelson. 2007. "Feed-back Effects of Intra-trade between GCC Countries." *International Journal of Applied Business and Economic Research* 5 (1): 75-89. Reveals the existence of feedback effects between trade of some members and trade of others, but not between trades of all members of the GCC.
- Metwally, M. M. 1987. "Determinants of the External Surplus of the Member States of the Gulf Co-operation Council." *Applied Economics* 19 (3): 305-16. Shows a significant negative correlation between the external surplus and non-oil income in each GCC member country.
- Metwally, M. M. 1993. "The Effect of the Decline in Oil Revenue on the Import Patterns of the Members of the Gulf Cooperation Council." *International Journal of Energy Research* 17 (5) (July): 413-22. Proves that the decline in oil revenue has resulted in a sharp rise in income elasticity of imports for all import groups in all GCC members.
- Metwally, M. M. 2003. "Impact of Price Elasticity of Exports on Terms of Trade: The Case of the GCC Countries." *Asia Pacific Journal of Energy* 13 (1) (June): 17-24. Proves that the faster the improvement in terms of trade of GCC countries, the lower the price elasticity of demand for oil.
- Metwally, M. M. 2004a. "Impact of Fluctuations in Oil Revenue on Investment in the GCC Countries." *Economia Internazionale* 57 (2): 173-89. Shows that the demand for investment in GCC countries was subject to structural shifts due to fluctuations in oil prices during the last quarter of the 20th century.
- Metwally, M. M. 2004b. "Determinants of Aggregate Imports of GCC Countries: Co-Integration Analysis." *Applied Econometrics and International Development* 4 (3): 59-76. Reveals that the downturn in oil prices resulted in a drastic reduction in the growth rates of imports of all the oil producers of the GCC.
- Metwally, M. M., and Alsowaidi, Saif S.. 2005. "Towards Unifying Monetary Policies in GCC Countries." *Global Journal of Finance and Economics* 2 (2): 149-62. Suggests that an application of a unified monetary policy for the integrated GCC countries could present difficulties.
- Metwally, M. M., and Daghistani, A. I.. 1987. "The Interaction between the Economies of the Member States of the Gulf Co-operation Council and the Industrialized Countries." *Indian Economic Journal* 35

(3): 51-59. Reveals that despite the large volume of financial reserves held by members of the GCC, their imports seem to depend on their export proceeds.

- Metwally, M. M., and Rammadhan, M.. 2000. "Impact of Fuctuations in Oil Prices on the Resource Balance of the GCC Countries." *Middle East Business and Economic Review* 12 (2): 1-9. Suggests that the resource balance of each GCC member is negatively correlated with non-oil income and positively correlated with growth in the world economy.
- Metwally, M. M., and Tamaschke, R.. 1980. "Oil Exports and Economic Growth in the Middle East and North Africa." *Kyklos* 33 (3): 499-522. Suggests that members of the GCC need to take more measures to exploit the investment opportunities generated by the growth in oil exports.
- Metwally, M. M., and Tamaschke, R.. 2001. "Trade Relationship between the Gulf Cooperation Council and the European Union." *European Business Review* 13 (5): 292-96. Shows significant feedback effects in GCC countries that trade with the EU.

MOKHTAR M. METWALLY

**APA**

Chicago

Harvard

MLA

---

METWALLY, M. M. (2010). Gulf Cooperation Council. In K. A. Reinert, & R. S. Rajan (Eds.), *The Princeton encyclopedia of the world economy*. Princeton, NJ: Princeton University Press. Retrieved from [https://search.credoreference.com/content/topic/gulf\\_cooperation\\_council](https://search.credoreference.com/content/topic/gulf_cooperation_council)

---

 PRINCETON UNIVERSITY PRESS Copyright © 2010 by Princeton University Press

 PRINCETON UNIVERSITY PRESS Copyright © 2010 by Princeton University Press

## APA

METWALLY, M. M. (2010). Gulf Cooperation Council. In K. A. Reinert, & R. S. Rajan (Eds.), *The Princeton encyclopedia of the world economy*. Princeton, NJ: Princeton University Press. Retrieved from [https://search.credoreference.com/content/topic/gulf\\_cooperation\\_council](https://search.credoreference.com/content/topic/gulf_cooperation_council)

## Chicago

METWALLY, MOKHTAR M. "Gulf Cooperation Council." In *The Princeton Encyclopedia of the World Economy*, edited by Kenneth A. Reinert, and Ramkishen S. Rajan. Princeton University Press, 2010. [https://search.credoreference.com/content/topic/gulf\\_cooperation\\_council](https://search.credoreference.com/content/topic/gulf_cooperation_council)

## Harvard

METWALLY, M.M. (2010). Gulf Cooperation Council. In K.A. Reinert & R.S. Rajan (Eds.), *The Princeton encyclopedia of the world economy*. [Online]. Princeton: Princeton University Press. Available from: [https://search.credoreference.com/content/topic/gulf\\_cooperation\\_council](https://search.credoreference.com/content/topic/gulf_cooperation_council) [Accessed 23 October 2019].

## MLA

METWALLY, MOKHTAR M. "Gulf Cooperation Council." *The Princeton Encyclopedia of the World Economy*, edited by Kenneth A. Reinert, and Ramkishen S. Rajan, Princeton University Press, 1st edition, 2010. *Credo Reference*, [https://search.credoreference.com/content/topic/gulf\\_cooperation\\_council](https://search.credoreference.com/content/topic/gulf_cooperation_council). Accessed 23 Oct. 2019.