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U.S.-Gulf Cooperation Council (GCC) Trade and Investment: Trends and Implications

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ABSTRACT

This CRS report outlines trends in trade and investment between the United States and the six countries of the Gulf Cooperation Council (GCC)–Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The report highlights the centrality of the GCC countries in the global oil and natural gas markets; analyzes the components of the balance of trade between the United States and the GCC; and examines GCC trade and investment liberalization in the context of intellectual property rights (IPRs), a proposed GCC customs union, and the encouragement of foreign direct investment (FDI). The report is designed as a source of ready reference for congressional offices interested in the dynamics of economic relations between the United States and the countries of the GCC. The report will be updated when complete U.S. trade and investment data for 1999 are released. Related CRS products are RL30093 The Persian Gulf: Issues for U.S. Policy, 1999, by Kenneth Katzman, and 97-7 Persian Gulf: Political Reform and U.S. Policy, by Kenneth Katzman.

U.S.-Gulf Cooperation Council (GCC) Trade and Investment: Trends and Implications

Summary

The economies of the six countries comprising the Gulf Cooperation Council (GCC)--Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)--are important to both the U.S. economy and the global economy primarily because of their large share of global hydrocarbon resources. According to the International Monetary Fund (IMF), as of 1996, the GCC countries possessed 53 % of the world's proven petroleum reserves and 14 % of the world's proven natural gas reserves.

In 1998, bilateral trade between the United States and the six GCC countries amounted to more than $24 billion. Between 1996 and 1998, total bilateral trade between the United States and the GCC countries remained fairly constant, averaging roughly $25 billion per year. Depressed global oil prices in 1997 and 1998 resulted in U.S. trade surpluses with the GCC countries during this time period. In 1998, oil sales accounted for nearly 80 % of GCC exports to the United States, whereas the sale of machinery and transport equipment (including military aircraft) accounted for more than 70 % of U.S. exports to the countries of the GCC.

The lack of comprehensive and effective intellectual property rights (IPRs) protection in the countries of the GCC has had a dampening effect on foreign investment and trade, particularly in the information technology (IT) and pharmaceutical sectors. However, both the GCC as a whole and its member states have become more aware of the need to afford effective IPR protection in recent years.

Currently, the GCC is working towards the establishment of a customs union among its six member states. The establishment of a GCC customs union could have wide-ranging effects upon trade between the United States and the GCC. If the GCC customs union results in higher total tariff levels, U.S. exports to the region could decrease. If, on the other hand, the GCC customs union results in lower total tariff levels, U.S. exports to the region could increase.

In an attempt to better exploit their hydrocarbon resources and to diversify their revenue base, the countries of the GCC have, to varying degrees, encouraged foreign direct investment (FDI) in their economies. Between 1996 and 1998, U.S. direct investment in the GCC has increased by 30 % from $4.8 billion to $6.2 billion. If GCC countries continue to encourage foreign direct investment and especially if GCC countries proceed with plans to reopen their energy sectors to foreign companies, U.S. direct investment in the region could increase further.

This report will be updated when complete U.S. trade and investment data for 1999 are released.

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Introduction

The economies of the six countries comprising the Gulf Cooperation Council (GCC)--Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)--are important to both the U.S. economy and the global economy primarily because of their large share of global hydrocarbon resources. According to the International Monetary Fund (IMF), as of 1996, the GCC countries possessed 53 % of the world's proven petroleum reserves. In addition, the GCC countries produce 24 % of global petroleum output and account for 40 % of global petroleum exports.[1] One GCC country alone, Saudi Arabia, possesses the largest proven oil reserves in the world (261.5 billion barrels), accounting for 25 % of the world's total. The U.S. Department of Energy estimates that Saudi Arabia may possess up to 1 trillion barrels of ultimately recoverable oil.[2]

In addition to containing a substantial portion of global oil reserves, the countries of the GCC also possess 14 % of total global proven natural gas reserves, according to the IMF.[3] Although two non-GCC countries (Russia and Iran) possess the largest quantities of proven natural gas reserves, Qatar, the UAE, and Saudi Arabia rank third, fourth, and fifth respectively in proven natural gas reserves. Qatar's North Field is the largest non-associated natural gas field in the world and is estimated to contain more than 380 trillion cubic feet of natural gas (nearly 8 % of total world reserves).[4]

Despite the vast energy reserves of the GCC countries, the United States is not currently excessively dependent on GCC energy resources to meet its domestic requirements. In 1998, net oil imports from the entire Gulf region (the GCC countries in addition to Iraq and Iran) totaled 21.9 % of total oil imports. Although this total represents a percentage increase in oil imports from the Gulf since the mid-1980s, it is below the peak level of oil imports from the Gulf, which occurred in 1991, when

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[1] Cyrus Sassanpour, "Policy Challenges in the Gulf Cooperation Council Countries," International Monetary Fund, Middle Eastern Department, May 1996; available on the Internet at [http:www.imf.org/external/pubs/ft/policy/box1.htm].

[2] "Saudi Arabia Country Analysis Brief," U.S. Department of Energy, Energy Information Administration, January 1999, [http://www.eia.doe.gov/emeu/cabs/saudi.html].

[3] Cyrus Sassanpour, "Policy Challenges in the Gulf Cooperation Council Countries," International Monetary Fund, Middle Eastern Department, May 1996, available on the Internet at [http:www.imf.org/ external/pubs/ft/policy/box1.htm].

[4] "Survey on Qatar: Oil and Gas," The Middle East, April 1998.

27.8 % of total U.S. oil imports came from the region.[5] The expenses involved in converting natural gas to liquified natural gas (LNG) and the associated transport costs in marketing LNG across the Atlantic Ocean would seem to preclude the possibility of the United States becoming heavily dependent on GCC natural gas resources. By virtue of their relative proximity to the region and scant domestic energy resources, Western Europe and Japan are more dependent upon GCC energy resources than the United States. In 1998, net oil imports from the Gulf reached 50 % of Western Europe's total oil imports and 76 % of Japan's total oil imports.[6]

By virtue of their significant place in the global energy market, the economic policies of the countries of the GCC can have significant implications for both the U.S. economy and the global economy. The remainder of this paper details U.S.-GCC trade and investment trends and examines the effects that current GCC economic liberalization may have on economic relations between the GCC and the United States.

Overview of U.S.-GCC Trade

In 1998, bilateral trade between the United States and each of the six countries comprising the Gulf Cooperation Council (GCC)--Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)--totaled in the aggregate more than $24 billion. Between 1996 and 1998, total bilateral trade between the United States and the GCC countries remained fairly constant, averaging roughly $25 billion per year.

Table 1 presents the U.S. balance of trade with the GCC countries individually and as a whole between 1996 and 1998. A positive figure reflects a U.S. trade surplus (value of U.S. exports greater than value of U.S. imports), whereas a negative figure reflects a U.S. trade deficit (value of U.S. imports greater than value of U.S. exports). In 1996, the United States had an overall trade deficit of roughly $800 million with the countries of the GCC. However, the United States ran a trade surplus with all GCC countries except for Saudi Arabia and Oman in that year. The U.S. trade deficit with Saudi Arabia exceeded $3 billion in 1996, reflecting the relatively high price of oil on the world market (as compared with 1997 and 1998).

In 1997 and 1998, the United States registered trade surpluses with the GCC of roughly $900 million and $6.6 billion respectively. These overall trade surpluses are largely explained by the dramatic reversal of the balance of trade between the United States and Saudi Arabia. From a trade deficit of more than $3 billion in 1996, the United States recorded a trade surplus of more than $4 billion in 1998. However, this turnaround is not due to a sudden structural readjustment in the trade pattern between the two countries. Rather, Saudi Arabia's deteriorating trade balance with the United States is attributable to the nearly 40 % decline in oil prices between 1997 and 1998.

[5] "Persian Gulf Oil Export Fact Sheet," U.S. Department of Energy, Energy Information Administration, June 1999, [http:www.eia.doe.gov/emeu/cabs/pgulf.html].

[6] Ibid.

With a recovery in oil prices in 1999, the U.S. trade surplus with Saudi Arabia and the GCC is likely to decline or to become a trade deficit. As of September 1999, the current year-to-date U.S. trade balance with Saudi Arabia was a U.S. trade deficit of $110 million.[7]

Table 1. U.S. Balance of Trade with GCC Countries
(In Millions of U.S. Dollars)

	1996	1997	1998
Bahrain	128	290	139
Kuwait	332	-426	258
Oman	-198	98	86
Qatar	51	222	134
Saudi Arabia	-3,156	-927	4,279
UAE	2,034	1,687	1,706
Total GCC	-809	944	6,602

Source of Data: U.S. Department of Commerce, Bureau of the Census.

Table 2 details U.S. exports to the countries of the GCC individually and as a whole between 1996 and 1998. Overall, U.S. exports to the GCC countries account for a very small portion of total U.S. exports. For instance, in 1998, U.S. exports to the region totaled $15.4 billion and accounted for only 2.3 % of total U.S. exports. However, between 1996 and 1998, the value of U.S. exports to the GCC increased by 23 %. During this period of time, the value of U.S. exports increased most with Qatar (70 %) and decreased most with Kuwait (23 %). U.S. export data again reveal the centrality of Saudi Arabia in U.S. trade relations with the GCC. In 1998, U.S. exports to Saudi Arabia accounted for nearly 70 % of U.S. exports to the GCC. Considering that Saudi Arabia has the largest population and domestic market of the GCC countries, this is not surprising.

Table 3 details U.S. imports from the countries of the GCC individually and as a whole between 1996 and 1998. In 1998, U.S. imports from the region totaled $8.8 billion and accounted for 1.0 % of all U.S. imports. Moreover, between 1996 and 1998, the value of U.S. imports from the GCC decreased by 34 %. However, as noted above, this decrease should not be viewed as a structural change in the trading relationship, but is largely due to the temporary decline in the price of oil when the average domestic first purchase price of crude oil fell from $18.46 per barrel in 1996 to $10.88 per barrel in 1998,[8] adversely affecting the GCC countries' terms of trade

[7] "U.S. Trade Balance with Saudi Arabia," U.S. Department of Commerce, Bureau of the Census, [http://www.census.gov/foreign-trade/balance/c5170.html].

[8] "Crude Oil Price Summary," Monthly Energy Review, September 1999, U.S. Department (continued...)

(TOT)[9] and the value of their exports to the United States. This trend is particularly noticeable when examining data on Saudi Arabian and Kuwaiti exports to the United States, which fell by more than 40 % and 23 % respectively. In 1998, these two countries accounted for more than 85 % of all GCC exports to the United States and are the only GCC countries to heavily rely on the sale of oil in their trade with the United States (see Table 4 for further details). Conversely, during the same period, three GCC countries--Bahrain, Qatar, and the UAE-- actually increased the value of their exports to the United States by 34 %, 40 %, and 32 % respectively.

The composition of trade in 1998, as categorized by commodity type, between the U.S. and the GCC countries individually and as a whole is depicted in Table 4. This table reveals that almost 80 % of the value of U.S. imports from the GCC is from oil sales. However, as noted above, among the GCC states, only Saudi Arabia and Kuwait export significant quantities of hydrocarbons to the United States. In 1998, despite the downturn in world oil prices, oil still accounted for over 90 % of the value of these two countries' exports to the United States. Saudi Arabia's and Kuwait's dependence on oil sales for the vast majority of its export revenue from the United States leaves these countries' bilateral trade balance with the United States vulnerable to exogenous fluctuations in the global oil market.

Among the other four GCC countries--Bahrain, Oman, Qatar, and the UAE–miscellaneous manufactured goods, including textiles and apparel, accounted for the largest portion of their export revenues generated by trade with the United States. While such manufactured goods accounted for just 8 % of total GCC exports to the United States in 1998, these goods accounted for 45 % of UAE exports, 52 % of Bahraini and Qatari exports, and 82 % of Omani exports to the United States. As noted above, Bahrain, Qatar, and the UAE, were all able to increase the value of their exports to the United States between 1996 and 1998 due to a relatively more diversified export industry than Kuwait and Saudi Arabia.

U.S. exports to the GCC in 1998 primarily consisted of machinery and transport equipment (including military aircraft), reflecting the involvement of U.S. companies in the ongoing development of industry, infrastructure, and military capabilities in the region. Overall, machinery and transport equipment comprised 71 % of U.S. exports to the GCC countries, ranging from 34 % of U.S. exports to Bahrain to 77 % of U.S. exports to Saudi Arabia. With a recovery in world oil prices following a March 1999 OPEC production quota arrangement, most GCC countries are currently considering proceeding with capital-intensive industrial and infrastructure projects. Many such projects were put on hold when low oil prices compelled GCC countries to reign in investment expenditures. Increased GCC investment in industrial and infrastructure projects could provide opportunities for U.S. firms to export greater levels of machinery and transport equipment to the GCC countries.

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[8] (...continued)
of Energy, Energy Information Administration, available on the Internet at [http://www.eia.doe.gov/pub/ energy.overview/monthly.energy/mer9-1].

[9] Terms of trade (TOT) are a ratio of the value of a country's exports to the value of a country's imports.

Table 2. U.S. Exports to GCC Countries
(In Millions of U.S. Dollars)

	1996	1997	1998	% Change 1998/1996
Bahrain	244	406	295	20.90%
Kuwait	1,984	1,390	1,524	-23.19%
Oman	217	341	303	39.63%
Qatar	208	379	354	70.19%
Saudi Arabia	7,311	8,438	10,520	43.89%
UAE	2,533	2,607	2,366	-6.60%
Total GCC	12,497	13,561	15,362	22.92%

Source of Data: U.S. Department of Commerce, Bureau of the Census

Table 3. U.S. Imports from GCC Countries
(In Millions of U.S. Dollars)

	1996	1997	1998	% Change 1998/1996
Bahrain	116	116	155	33.62%
Kuwait	1,651	1,816	1,266	-23.32%
Oman	414	242	217	-47.58%
Qatar	157	157	220	40.13%
Saudi Arabia	10,467	9,365	6,241	-40.37%
UAE	499	920	660	32.26%
Total GCC	13,304	12,616	8,759	-34.16%

Source of Data: U.S. Department of Commerce, Bureau of the Census

Table 4. U.S. Trade with GCC Countries by Type of Commodity, 1998

A(s a percentage of U.S. exports to or imports from the region)

	Bahrain		Kuwait		Oman		Qatar	
	U.S. Exports To	U.S. Imports From	U.S. Exports To	U.S. Imports From	U.S. Exports To	U.S. Imports From	U.S. Exports To	U.S. Imports From
Food & Live Animals	2.36%	0.44%	2.43%	0.01%	4.42%	4.40%	2.66%	0%
Beverages & Tobacco	2.59%	0%	2.82%	0%	6.28%	0%	1.98%	0%
Crude Materials, Except Fuels	0.36%	0.04%	0.68%	0.19%	1.53%	0.03%	0.40%	0%
Mineral Fuels	5.98%	6.60%	0.18%	**97.48%**	0.03%	8.37%	0.10%	10.72%
Animal & Vegetable Oils	4.71%	0%	0.80%	0%	1.10%	0%	0%	0%
Chemicals & Related Products	4.10%	11.11%	3.65%	0.83%	4.20%	0%	2.94%	20.41%
Manufactured Goods (i.e. leather, rubber, paper, fabrics, iron, steel)	7.16%	21.58%	4.23%	0%	5.50%	0.15%	18.30%	0%
Machinery & Transport Equipment (including military aircraft)	**34.33%**	1.45%	**59.42%**	0.09%	**65.31%**	0.06%	**60.81%**	0.04%
Misc. Manufactured Goods (i.e. tanks, guns, ammunition, furniture, apparel)	16.99%	**51.68%**	22.88%	0.39%	6.04%	**82.01%**	8.61%	**51.63%**
Commodities & Transactions	21.40%	7.07%	2.90%	0.99%	5.59%	4.94%	4.20%	17.19%

	Saudi Arabia		UAE		Total GCC	
	U.S. Exports To	U.S. Imports From	U.S. Exports To	U.S. Imports From	U.S. Exports To	U.S. Imports From
Food & Live Animals	3.93%	0.01%	6.06%	1.02%	4.07%	0.20%
Beverages & Tobacco	1.90%	0%	1.99%	0.03%	2.10%	0%
Crude Materials, Except Fuels	0.70%	0.18%	0.95%	1.05%	0.74%	0.24%
Mineral Fuels	0.11%	**90.78%**	1.45%	5.56%	0.43%	**79.91%**
Animal & Vegetable Oils	0.70%	0%	1.33%	0%	0.88%	0%
Chemicals & Related Products	2.72%	6.56%	6.83%	15.18%	3.51%	6.65%
Manufactured Goods (i.e. leather, rubber, paper, fabrics, iron, steel)	3.66%	0.45%	9.80%	14.73%	5.11%	1.80%
Machinery & Transport Equipment (including military aircraft)	**77.35%**	0.29%	**58.27%**	2.19%	**71.22%**	0.41%
Misc. Manufactured Goods (i.e. tanks, guns, ammunition, furniture, apparel)	4.32%	0.34%	10.22%	**44.90%**	7.40%	7.84%
Commodities & Transactions	4.62%	1.39%	3.08%	15.33%	4.55%	2.95%

Source of Data: Adapted from U.S. Department of Commerce, Bureau of the Census.

The GCC and Intellectual Property Rights (IPRs)

The lack of comprehensive and effective intellectual property rights (IPRs) protection in the countries of the GCC has had a dampening effect on foreign investment and trade, particularly in the information technology (IT) and pharmaceutical sectors. However, both the GCC as a whole and its member states have become more aware of the need to afford effective IPR protection in recent years. According to the U.S. Administration, the states of the GCC have made "considerable progress" in addressing this issue. The GCC has published a Unified Patent Law, is planning on establishing a GCC patent office, and is working to create unified trademark regulations.[10]

According to the rules of the World Trade Organization (WTO), Arab countries are not required to be in compliance with WTO IPR standards until 2005.[11] Four of the six states of the GCC--Bahrain, Kuwait, Qatar, and the UAE–are currently members of the WTO and are working to bring their IPR legislation into compliance with WTO standards. These four countries are also working to bring their copyright laws into compliance with the Trade-Related Aspects of Intellectual Property Rights (TRIPs) by 2000. Saudi Arabia and Oman, with qualified support from the United States, have applied for accession to the WTO and are also in the process of bringing legislation into compliance with WTO standards in order to facilitate their membership applications.

The lack of effective IPR enforcement in the GCC continues to be evident in the high rates of software piracy in the Gulf. Although the pirating of software is not sanctioned by any GCC government, most GCC states have been unable to significantly reduce the incidence of piracy. According to the Business Software Alliance (BSA), in 1998, 93 % of the software in use in Oman was pirated, 89 % in Bahrain, 88 % in Kuwait, 87 % in Qatar, and 73 % in Saudi Arabia. Of the GCC states, only the UAE has been effective in significantly decreasing the rate of pirated software. In 1995, software piracy stood at 86 % in the UAE, dropping to only 49 % by 1998.[12] Table 5 shows the results of the GCC countries' efforts to reduce the rate of software piracy since 1994.

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[10] "1999 National Trade Estimates Report on Foreign Trade Barriers: Gulf Cooperation Council," Office of the U.S. Trade Representative.

[11] Julian Taylor, "Piracy in the Middle East," The Middle East, December 1998.

[12] Business Software Alliance (BSA) and Software & Information Industry Association (SIIA), 1998 Global Software Piracy Report, p. 8.

Table 5. Software Piracy Rates in the GCC Countries and the U.S.

	1994	1995	1996	1997	1998
Bahrain	92%	92%	90%	89%	89%
Kuwait	91%	91%	89%	88%	88%
Oman	96%	96%	95%	93%	93%
Qatar	91%	91%	89%	87%	87%
Saudi Arabia	78%	77%	79%	74%	73%
UAE	86%	86%	50%	50%	49%
United States	31%	26%	27%	27%	25%

Source of Data: Business Software Alliance (BSA) and Software and Information Industry Association (SIIA), *1998 Global Software Piracy Report*, pp. 7-8.
Note: Piracy rate is defined as the percentage of total software used that is pirated.

In the GCC countries, as in other parts of the world, there appears to be a direct relationship between the enforcement of IPRs and the willingness of information technology (IT) companies to invest. Since the UAE enforces IPRs to a greater extent than any other GCC country, Dubai, one of the seven emirates of the UAE, has become the regional center for IT companies. Currently, in Dubai alone, over 600 IT companies have opened, generating more than $600 million in revenues.[13]

GCC Customs Union

Since its inception in 1981, the GCC has made economic cooperation among its member states a principal policy goal. Initial hopes of achieving far-reaching economic integration, such as a common market or monetary union, have not materialized to date. Steps taken toward economic cooperation have been more modest, focusing on preferential access for Gulf citizens in government tenders and investment opportunities.

Currently, the GCC is working towards the establishment of a customs union[14] among its six member states. The establishment of a GCC customs union could have wide-ranging effects upon trade between the United States and the GCC. Currently, the six members of the GCC have wide disparities in their respective tariff levels,

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[13] Angus Hindley, "Playing Catch-Up," Middle East Economic Digest, October 1, 1999

[14] A customs union represents a higher step toward economic integration than does a free trade area (FTA). Under a FTA, member states typically agree to eliminate tariff barriers while retaining a right to independently set tariff rates vis-a-vis states outside of the FTA. Under a customs union, member states typically agree to eliminate tariff barriers and harmonize tariff rates vis-a-vis states outside of the customs union.

reflecting the varying degrees of economic openness or protectionism found in the Gulf. For instance, Kuwait, the UAE, Qatar, and Oman impose relatively low levels of import duties on most goods, ranging from 4-5 %. On the other hand, Bahrain and Saudi Arabia impose higher levels of import duties on most goods, generally 10 % and 12 % respectively.[15] The Administration has expressed concerns that a harmonized tariff schedule could employ a "highest common denominator" approach that "could significantly increase the number of products across the GCC that face high tariffs."[16] If the GCC customs union results in higher total tariff levels, U.S. exports to the region could decrease. If, on the other hand, the GCC customs union results in lower total tariff levels, U.S. exports to the region could increase.

In October 1999, customs officials from the GCC member states gave their initial consent to a unified customs law for the regional grouping. Many analysts expected that approval by the finance ministers and ratification by the heads of state would lead to the customs union taking effect sometime during 2000 or 2001.[17] However, in November 1999, the heads of state of the GCC countries announced that the establishment of the customs union will be delayed until March 2005. The customs union will reportedly set a uniform tariff schedule of 5.5 % for essential commodities and 7.5 % for other commodities. According to the London-based Arabic newspaper *al-Hayat*, the UAE requested the delay [18] following a disagreement with Saudi Arabia over the proposed tariff rates. These proposed rates are higher than the current UAE rates and, if the customs union were to be implemented, could harm the status of the UAE as a regional trading center. If implemented at the proposed tariff schedule, the GCC customs union would also tend to raise import duties in Kuwait, Qatar, and Oman, although there would be lower import duties in Bahrain and Saudi Arabia

At this point, it is also unclear whether a GCC customs union will result in a significant increase or decrease in non-tariff barriers to trade between GCC countries and the rest of the world. Currently, most GCC countries give preferential treatment to GCC nationals in awarding governmental contracts. According to the United States Trade Representative, this preferential treatment usually amounts to a 10 % price preference.[19] In addition, some GCC countries require that a certain percentage of governmental contracts awarded to foreign firms be sub-contracted to local firms. In some GCC countries, such as Qatar and the UAE, a local agent or majority local ownership helps foreign companies win non-defense related governmental contracts. In many GCC countries, local businesses receive generous governmental subsidies for land, water, and electricity, creating implied export subsidies. The GCC has not

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[15] See "1998 Country Reports on Economic Policy and Trade Practices," U.S. Department of State.

[16] "1999 National Trade Estimates Report on Foreign Trade Barriers: Gulf Cooperation Council," Office of the U.S. Trade Representative.

[17] "GCC Customs Union Approved," Middle East Economic Digest, October 15, 1999.

[18] Zaheer Qaseebati, Turki al-Dakheel, and Meisar al-Shamri, "The Customs Union is Delayed until 2005," al-Hayat, November 29, 1999.

[19] "1999 National Trade Estimates Report on Foreign Trade Barriers: Gulf Cooperation Council," Office of the U.S. Trade Representative.

made clear whether its proposed customs union will establish unified standards for these types of non-tariff barriers in addition to a harmonized tariff schedule.

Encouragement of Foreign Direct Investment (FDI)

In an attempt to better exploit their hydrocarbon resources and to diversify their revenue base, the countries of the GCC have, to varying degrees, encouraged foreign direct investment (FDI) in their energy sectors and other sectors of their economies. Low global oil prices in 1997-1998 dramatized the urgency of infusing GCC economies with additional foreign capital in order to combat the current account and budget deficits that developed as a result of lowered export revenues.

Although oil prices have rapidly recovered since OPEC agreed to additional production cutbacks in March 1999, thus alleviating the most pressing budget concerns of the GCC countries, plans to encourage foreign investment have continued. As the GCC state attracting the most U.S. direct investment, Saudi Arabia's efforts in this field merit special consideration. In September 1998, Saudi Crown Prince 'Abdullah met with executives from Chevron, Phillips Petroleum, and Mobil and discussed the possibility of U.S. direct investment in the Kingdom's upstream (exploration and drilling) and downstream (marketing and distribution) natural gas sector. In August 1999, following the receipt of several investment proposals, a top Saudi government official sent a letter to several oil companies stating that Saudi Arabia plans to begin the negotiating and bidding phases for these investments by early 2000.[20] In addition, Saudi Arabia is taking steps to set foreign firms on the same legal footing as local firms and decrease the corporate tax rate on foreign firms employing a certain percentage of Saudi workers.[21]

Table 6 depicts trends in U.S. direct investment in the countries of the GCC in recent years. Between 1996 and 1998, U.S. investment in the GCC has increased by 30 % from $4.8 billion to $6.2 billion. In 1998, Saudi Arabia accounted for 67 % of all U.S. direct investment in the region, reflecting the preeminent position of Saudi Arabia in U.S.-GCC economic relations. If GCC countries continue to encourage foreign direct investment and especially if GCC countries proceed with plans to reopen their energy sectors to foreign companies, thereby reversing the process of nationalization that occurred in the 1970s, U.S. direct investment in the region could increase further.

[20] Toby Odone,"Saudi Minister's Letter Affirms Nation's Interest in Opening Up Industry," The Oil Daily, August 24, 1999.

[21] "New Law Set to Ease Tax on Foreign Firms," Middle East Economic Digest, October 15, 1999.

Table 6. U.S. Direct Investment in GCC Countries, 1996-1998
In Millions of U.S. Dollars

	1996	1997	1998
Bahrain	-138	-186	-139
Kuwait	28	-60	(D)
Oman	78	83	84
Qatar	747	1,085	1,378
Saudi Arabia	3,476	3,826	4,209
UAE	598	567	710
Total GCC	4,789	5,315	6,242

Source of Data: U.S. Department of Commerce, *Survey of Current Business*, September 1999, p. 83.
Note: Negative figures represent capital outflows exceeding the initial book value of the investment. The figure (D) represents data that is suppressed in order not to reveal the investments of an individual company.

Conclusion

To date, the U.S. government has been very supportive of GCC efforts to liberalize trade and investment regulations. The United States maintains a degree of influence on the course of economic policymaking in the GCC countries through the government-to-government U.S.-GCC Economic Dialogue. Through this forum, both the United States and the GCC countries have emphasized the priority of increasing levels of trade and investment. This dialogue has helped to deepen economic relations between the United States and the GCC countries, complementing an already strong political and security partnership.

Further trade liberalization in the GCC would most likely boost the level of trade with the United States. The establishment of a more integrated economic unit, in the form of a customs union, could promote economies of scale in the GCC, thereby creating a larger single market for U.S. exports. The removal or reduction of various non-tariff barriers to trade could also lead to increased U.S. exports to the region.

The further liberalization of the investment climate in GCC countries would most likely strengthen economic relations between the United States and the GCC. As GCC countries begin to enforce intellectual property rights (IPRs) more strictly, U.S. information technology (IT) companies are likely to consider increasing their investment in the region. Also, any moves by GCC countries to further open their energy sectors, especially the upstream gas and oil sectors, to foreign direct investment (FDI) would undoubtedly greatly interest U.S. energy companies.