



THE GCC SUMMIT IN PERSPECTIVE: A CONVERSATION WITH JOHN DUKE ANTHONY

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The National Council is pleased to distribute the text of a recent interview between *ArabiaLink* editor Patrick Ryan and National Council President and CEO Dr. John Duke Anthony. The focus of the interview is Dr. Anthony's observations and analyses based on his having attended the Gulf Cooperation Council's 31st Heads of State Summit in Abu Dhabi, United Arab Emirates.



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Editor's Note:

The most recent annual gathering of the highest ranking decision makers and policymakers of the six GCC countries — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates — convened in Abu Dhabi at a time of unusual international interest in the topics discussed. Like each of the previous GCC ministerial and heads of state summits since the founding one in May 1981, which also took place in Abu Dhabi, a broad spectrum of issues was covered. National Council on U.S.-Arab Relations President Dr. John Duke Anthony was again present for the occasion. In addition to his perspectives on the summit Dr. Anthony also shared insights on the UAE's financial health and the proposed GCC currency union based on his discussions with officials in Abu Dhabi and his decades of experience in the region. We thank him for taking time from his very busy schedule in Abu Dhabi to talk about developments related to the summit and look forward to discussing additional important issues further with him in *ArabiaLink* after his return to Washington.

ARABIALINK EXCLUSIVE - Annual GCC Ministerial and Heads of State Summit in Perspective: A Conversation with John Duke Anthony

[ArabiaLink] It was little over a year ago when regional as well as global economic and financial market analysts were fixated on the UAE Emirate of Dubai. The concern was that the decades-long dizzying nature, pace, and extent of the emirate's boom fueled in part by a degree of real estate speculation the likes of which eastern Arabia and the Lower Gulf had never previously witnessed, had come to an end. How has the UAE weathered the situation?

[Dr. John Duke Anthony] One thing many foreign analysts overlooked or failed to realize in the case of Dubai was that its economic dynamism historically has not been rooted in matters pertaining to real estate. Rather, for more than a century its special niche has always been its robust volume, efficiency, and profitability associated with other areas of investment or as a longtime Dubayyan friend jokingly shared with me recently, "More than anything else we have long been interested in, and remain quite successful at, are three categories of endeavor: One of these is trade, trade, and trade. Another is business, business, and business. And the third is commerce, commerce, and commerce."

With these other three things comprising the emirate's main economic *raison d'être*, one should not be surprised that while the real estate sector was of course hit hard and will take some time to recover, the other sectors of Dubai's economy remained relatively strong, so much so that its published and projected GDP in the coming year is expected to grow 4.6 per cent.

As to the UAE as a whole, economic and financial managers involved in one way or another with the summit were surprisingly far more upbeat than one might have imagined twelve months ago. In a meeting on the summit's sidelines, UAE Central Bank Governor General Sultan Nasser Al-Suwaidi was at pains to emphasize to others and me how the country's overall economic situation, in particular the health of its banking sector, was on the rebound. As illustrations, he made several points. Of interest is that no one questioned his facts.

[ArabiaLink] Which were .. ?

[Anthony] Evidence that the worst effects of the recent international financial, credit, and liquidity crisis have bottomed out, he said, is that UAE banking system deposits have grown from \$930 billion dollars in 2009 a year ago — up 130 billion dollars this past October alone. That the system's customers have not only maintained but added to their deposits, he argued, is in itself a sign of a healthy recovery underway much earlier than many would have expected.

[ArabiaLink] Was this the only indication the Governor General offered in support of his analysis? Couldn't one say the same with regard to Bahrain's older and better known niche, especially its offshore banking system, within the GCC countries and/or the financial markets in Saudi Arabia?

[Anthony] This was but one of his points. Among others he indicated that the number of UAE banks over the past year has not diminished but continued to increase, albeit at a lower rate than before. Indeed, he said there are presently 24 foreign-owned banks, another 23 owned by UAE nationals, and, in contrast to two decades ago where there was but one GCC bank, there are now six, for a total of 53 banks, three of which are wholesale banks. On top of this are the Abu Dhabi Investment Authority, Mubadela, and several other state owned investment funds that increase the UAE's sovereign wealth holdings which, even before the crisis, were by far the largest in the so-called developing world comprised of 140 countries.

[ArabiaLink] The number of banks is one thing; what can one say about their assets?

[Anthony] Suwaidi said "the UAE banking sector's assets presently stand at 1.6 trillion dirhams, or roughly 434 billion dollars, which, for comparison, is slightly larger than the size of the holdings in the Turkish banking system. Certainly within the Arab world, the UAE is second to none in the combined

value of its bank's assets, capitalization, and reserves. In addition, loans continue to grow steadily, at 1.28 trillion DH, or \$350 billion dollars." [The UAE's monetary exchange rate is 3.68 per U.S. dollar.]

[ArabiaLink] But what about reports one periodically hears about GCC country concerns about the U.S. dollar?

[Anthony] Suwaidi was quick to address this question. As to the wisdom of the UAE and other GCC countries continuing to peg their currencies to the U.S. dollar as the principal unit of exchange for their international financial transactions, he made it clear that the UAE and its fellow GCC member states have entertained no serious reservations thus far.

[ArabiaLink] Did he offer any hard evidence in support?

[Anthony] Yes. He indicated that there is as yet no serious replacement on the horizon. Only two currencies, the Japanese yen and the Chinese renminbi, can be considered as possible competitors in the distant future. For now, though, the significance of each as a financial instrument of trade is limited primarily to the Asian regional context in which their economies are mainly situated. The same, he indicated, can be said of the Euro. "In contrast, the dollar is the medium of exchange not only for sixty to sixty-five percent of the UAE's international trade. The dollar is also what we use in the lion's share of our inward and outward foreign investments, our purchase of foreign debt instruments, and our deposits in other countries' financial institutions."

One additional point Mr. Al-Suwaidi did not mention but might have had he been asked is that, on a per capita basis, the UAE has climbed in the past few years to the first or second position in the Arab world as the largest purchaser of advanced American-manufactured military equipment and systems. The sales thereby generated in the course of expanding the UAE's external defense capabilities are also denominated in dollars.

He could not have been clearer in emphasizing that, barring the unforeseen, these trends and indications are likely to continue far into the future.

[ArabiaLink] But aren't critics correct that what impacted the non-oil components of the UAE's and other GCC countries' economies negatively beginning two years ago wasn't limited to intra-regional real estate speculation and other risky investments alone -- that among other factors were the strength or weakness of the U.S. dollar together with the timing of the American financial crisis?

[Anthony] Suwaidi's views on this point with regard to real estate being but one among other factors were illuminating. While not pointing fingers at specific actors' policies, he said that presently no more than twenty per cent of UAE bank deposits can be used as loans for real estate purchases versus Singapore and Hong Kong, where banks can loan a much higher percentage.

[ArabiaLink] Other than these insights into the UAE's and other GCC countries' banking and financial dynamics, what other factors help to explain the resiliency and growth of their economies vis-à-vis the United States and much of the rest of the world?

[Anthony] Among the more obvious is the continuing high international demand for the GCC member-states' energy exports. The current \$90 cost per barrel of oil, and the accompanying strong revenue inflow, make all the difference in the world.

[ArabiaLink] Where does defense cooperation among the GCC countries themselves, on one hand, and with their principal strategic foreign partners, on the other, fit into this equation?

[Anthony] It fits directly, massively, and pervasively.

[ArabiaLink] Meaning what?

[Anthony] It's reflected in the UAE and other GCC countries' strategic decision to invest heavily in the near and longer term protection of what they have built and accomplished, on one hand, and the heightened security, stability, and levels of prosperity they seek to achieve and maintain in the future, on the other. Evidence of how seriously they are pursuing this objective can hardly be clearer.

[ArabiaLink] How so?

[Anthony] In the week before the summit convened, the annual International Institute of Strategic Studies Annual Bahrain Security Dialogue was held in Manama. U.S. Secretary of State Hillary Clinton, accompanied by a large entourage, addressed it. So did UAE Minister of Foreign Affairs HH Abdalla bin Zayed. So did the UK Undersecretary for Defense. So did high-ranking officials from France and many other countries.

Only two days before the GCC summit began, U.S. Secretary of Defense Robert Gates visited Muscat to brief Omani Sultan HM Sultan Qaboos on Iran, Iraq, Afghanistan, Pakistan, and other defense challenges and issues of mutual interest and concern. He did the same thing later in Abu Dhabi. And simultaneous to the convening of the GCC summit itself, the Dubai-based Institute for Near East and Gulf Military Affairs held a two day conference in Abu Dhabi that was addressed by US CENTCOM Commanding General James Mattis and UAE armed Forces Deputy Chief of Staff Major General Ali Al-Kaabi. That there were 600 attendees at this conference held in the same city as the GCC summit at the same time is something that, in terms of logistics and operational dynamics on one hand, and the involvement of the requisite GCC country personnel in all three of these defense and related events in such a short space of time, on the other, is in my experience unprecedented and attests to the seriousness with which these issues are being addressed.

[ArabiaLink] What's driving this? Can you cite some examples?

[Anthony] Several forces and factors. For starters, consider where the GCC countries are located, their possession of forty per cent of the fuel that drives the engine of global economic growth, and the defense-related requirements associated with the neighborhood in which they are situated. Consider the potential threats to their security and stability stemming from their more populous and militarily experienced as well as geographically larger neighbors of Iran, Iraq, and Yemen as well as their "near abroad" proximity to the seemingly endless violence linked to ongoing conflict in Afghanistan, Pakistan, and the Arab-Israeli conflict.

Consider also their enormous expanse of air and sea corridors that, like the waist of an hour glass, link three continents — Asia, Africa, and Europe; that within their midst are Makkah and Madinah, the two holiest places in Islam, the fastest growing of the world's faiths; and that the region is also adjacent to the birthplaces and holiest sites of the two other monotheistic beliefs, Christianity and Judaism.

Not to the degree the American media would seem to indicate, and not to make too much of it, but metaphorically speaking these aspects and attributes alone are hardly of marginal meaning. Indeed, far beyond the stereotyped images of this region being synonymous with energy and money, the GCC countries and adjacent lands can at times be likened to a congested intersection and the traffic jam of the devout. They're the epicenter not only of prayer and pilgrimage but also of faith and spiritual devotion for half of humanity.

[ArabiaLink] What would you say to critics who might find such observations a bit exaggerated?

[Anthony] I don't know. I suppose the validity of any observation is in the eye of the beholder. If one is trying to be dispassionate, clinical, and objective, whether a particular observation is accurate, understated, or wide of the mark is likely also to be determined by the context and background of how one considers and analyzes something. Certainly, different observers and analysts tend to view reality differently according to their perspective — like flowers, finger prints, and snowflakes, no two are the

same.

This said, what I do know is what my GCC friends, acquaintances, and interlocutors continuously assure me -- and I have no reason not to believe -- to be the case. This is that none of the considerations I have cited are fanciful. All are real.

[ArabiaLink] If, for the sake of argument, one were to concede that your sources' observations have merit, what would be some of the implications for the GCC countries' interests and key foreign policy objectives?

[Anthony] The implications would be several. For one, it would be disastrous were the GCC summiteers in concert, separately, and/or in association with their Great Power allies not to do their utmost to strengthen their defense capabilities — it would be feckless and tantamount to gross ineptitude. Stated differently, failure of the member-countries and their strategic international partners to work continuously to protect what they have jointly built and accomplished has never been an option.

[ArabiaLink] And this is among the information and insights you have gleaned from your observations and discussions with individuals attending this particular summit?

[Anthony] Yes. But it would be a mistake to imply that this is something new. It is not. Indeed, the GCC members' strategic objective of strengthening their defense capabilities has been a constant since the organization's inception in May 1981. From then until now, virtually everyone with whom I have spoken deems this goal to have been -- and to continue to be -- absolutely necessary and prudent. This has been the case not just in the plenary sessions and the numerous important side meetings that take place at this and every other GCC ministerial and heads of state summit. Since the founding summit, it has also been the case, sometimes much more so in the largely underreported yearly meetings -- parallel to but by design less frequent and deliberately always outside of the GCC's annual summit framework — of the GCC countries' ministers of defense and their armed forces chiefs of staff.

[ArabiaLink] So, on balance, what's one to make of this kind of cooperation that Americans and others need to know?

[Anthony] One could begin with the reciprocally rewarding economic and defense cooperation between the GCC countries and friendly outside powers since the GCC's inception. For example, in the first of the three wars that have affected the GCC's national security and related interests directly — the Iran-Iraq war from 1980 to 1988 — the GCC countries hosted the forward-deployed detachments of two dozen Western expeditionary armed forces. That in itself was a first in the history of modern Arab-U.S. relations.

[ArabiaLink] Can you summarize what was so special about that and what, if anything, has been the after-effect?

[Anthony] One can credit the internationally concerted action that took place then with three GCC-Western world strategic successes. The first was the prevention of the Iranian revolution from spreading to the GCC region. The second was GCC-Western and primarily American cooperation in obtaining the unanimously passed UN Security Council Resolution 598 of July 1987 that finally led to Iran accepting a ceasefire to the conflict. The third was the considerable and multifaceted cooperation between GCC member-state Saudi Arabia, the United States, and Afghan resistance fighters that led to the ousting of the former Communist Red Army from Afghanistan, thereby hastening the collapse not only of the half-century Cold War but also of the Soviet Union and its imperial hold on eastern and central Europe.

[ArabiaLink] Was that mainly a "one-off" non-recurring strategic success?

[Anthony] No. What it did was provide a deeper and more broad-based foundation of cooperation than existed before, which proved vital in what followed. That is, following the reversal of Kuwait's invasion and occupation by Iraq in 1990-1991, four GCC-U.S. Defense Cooperation Agreements were forged. These, added to the earlier 1980 Oman-United States Access to Facilities Agreement, provided a strategic underpinning to GCC-U.S. strategic military cooperation unmatched between the GCC countries and any other power. All five of these agreements are still in place. They remain among the cornerstones of GCC-U.S. defense cooperation overall.

[ArabiaLink] Even so, how does that play in the current strategic military environment?

[Anthony] It figures in several ways. Take, for example, what I said earlier about the GCC summiteers convening here at the exact same time as some 600 GCC, American, British, French and other renowned military strategists gathering elsewhere in Abu Dhabi, which is something that as recently as a decade ago would have been unheard of. These arrangements have arguably constituted a degree of mutually beneficial international "strategic reassurance." Note the use of this carefully-crafted phrase. Those who coined it and are using believe it is less provocative – to Iran, for example – than terminology associated with what many strategic and defense analysts have traditionally referred to as "containment" or "deterrence." The net effect of such GCC-U.S. and other Western country initiatives has made a big difference in the overall levels of intra-GCC as well as international trust, confidence, and competence. Also overlooked but hardly unimportant is the extent to which the GCC countries have picked up most of the tab for the arms and systems purchased for their defense.

[ArabiaLink] What, if any, are the lessons from this?

[Anthony] They're twofold. One is that few if any less developed countries are likely to have forged a comparable number of defense related agreements with credible foreign powers. Two is that what would otherwise be the GCC countries' overall military weakness against their larger, demographically greater, and otherwise more militarily powerful neighbors has been compensated for in part by their substantially enhanced ability and willingness to cover much of the substantial cost of their protectors' forward deployed armed forces presence and higher-tech arsenals.

[ArabiaLink] In terms of benefit to the United States and GCC host country partners, what's the bottom line?

[Anthony] The impact can hardly be overstated. Certainly, one benefit has been what few if any other developing countries are in a position to do. That several GCC countries can associate themselves with the militaries of several Great Powers while simultaneously being able to pay for such a large portion of the costs to defend them is hardly a matter of small moment. Being able to do so may be as important as the number and nature of whatever weapons may be in their arsenal. Being able to do so may be as important as how citizens can be rapidly and effectively mobilized and deployed against a much more numerous, battle tested, and armed adversary. Proof of the strategic efficacy of such arrangement is that probably any country other than France or the United States would likely be hard pressed to achieve something similarly effective in Arab North Africa, the Nile Valley region, East Africa, and/or the Levant and Fertile Crescent countries.

[ArabiaLink] If we can switch topics, what's new if anything on the GCC currency union idea?

[Anthony] As you are aware, the original date for an agreement on such a union was to have been 2010. However, competition among the members to be the site for the monetary council tasked with preparing for the union got in the way.

[ArabiaLink] Who were the contenders?

[Anthony] The main two were Saudi Arabia and the UAE.

[ArabiaLink] What's Saudi Arabia's case?

[Anthony] Of the six GCC countries, it has by far the largest economy, the largest army, the largest land mass, the largest number of citizens, the largest number of expatriate workers, the largest volume of foreign remittances sent abroad, the largest oil production, the largest proven reserves, the largest single oil field, the largest refinery, the largest volume of exports not only to the world as a whole but also to China, the largest number of inhabitants, and probably the largest number of specialists with extensive firsthand experience working within and with the management and staff of the World Bank and the International Monetary Fund.

It also is custodian to the Islamic world's two holiest places (Makkah and Madinah). It plays host annually to the largest number of Muslim pilgrims. It is partner to the largest number of joint business ventures with American companies in the Arab world. It is the site of the GCC Secretariat General and the World Muslim League as well as the Islamic Development Bank in addition to its government offices in Riyadh being but minutes away from the embassies of all five of the United Nations Security Council's Five Permanent Members, including the United States, the world's most economically and militarily powerful country and producer of the world's single largest number of Saudi Arabian graduates of institutions of higher education outside the country.

[ArabiaLink] What was the UAE's case?

[Anthony] Not being a banker or a financial analyst, I'm not sure of all of the reasons. However, from a lay person's perspective, the UAE has its own impressive qualifications.

[ArabiaLink] Such as?

[Anthony] For one, Abu Dhabi has long been the headquarters of the Arab Monetary Union, patterned on the International Monetary Fund. For another, the Abu Dhabi Investment Authority (ADIA), which has been around for decades, has for some time also been the world's largest sovereign wealth fund. Being able to administer such an immense body of wealth responsibly and profitably through good years and bad has been no small feat. If it's true that nothing succeeds like success, ADIA's success has spawned Mubadela and several other Abu Dhabi-based investment bodies for which the potential would seem to be limited only by the imagination.

Third, the Abu Dhabi Fund for Economic and Social Development, following in the footsteps of the older and ongoing Kuwait-based Arab Fund for Economic and Social Development, has also been successful as has been the charitable and humanitarian outreach services of, among other institutions, the country's Red Crescent Authority and the Zayed Bin Sultan Foundation.

Credentials such as these alone merit notice.

In addition, being a confederation and thereby structured and governed like no other GCC country, the UAE can lay claim to having fairly and effectively represented the legitimate economic, financial, and political interests of six quite different Arabian political entities -- the exact same number of GCC countries that comprise the UAE.

[ArabiaLink] But hadn't Oman earlier also signified that it had no intention to become part of any GCC currency union at this time?

[Anthony] Yes. But Oman's situation, like that of all the other GCC countries, was distinctive.

[ArabiaLink] How so?

[Anthony] For one, among the GCC countries Oman, geographically the second largest of the six, has a longer coastline than any of the others by far. In addition, after Saudi Arabia, it has a larger number

of citizens than any other GCC country. And, alone among the member-states, it endured from 1965-1974 the longest sustained civil insurrection in modern Arabian history, consuming a disproportionate share of the country's limited revenues before the rebellion was defeated.

Among the consequences of these factors have been that, faced with larger, more diverse, and costlier economic infrastructure and financial development challenges than any of the other GCC countries, all of which also started earlier than Oman, Oman has had no choice but to indicate a willingness to incur, when and if necessary, a substantially higher debt burden than the rest if only to be able to catch up with the others sooner than would otherwise be the case.

Even so, regarding the pros and cons of the proposed GCC currency union, neither Oman nor the UAE ought to be viewed either as unique in light of their situations at this time. Neither ought they to be seen in the negative light that some seem intent to imply. For example, if adherence to the Euro zone is any guide, only 16 of the 27 members have opted to join it thus far. And among those that have are some that wonder whether that was the wisest decision given the turmoil that has since been visited upon the European economy.

Dr. John Duke Anthony is the founding President and Chief Executive Officer of the National Council on U.S.-Arab Relations. He has been the only American invited to each of the Gulf Cooperation Council's annual Ministerial and Heads of State Summits since the GCC's inception in 1981. For the past 37 years, Dr. Anthony has been a consultant and regular lecturer on the Arabian Peninsula and the Gulf for the Departments of Defense and State. In addition to heading the National Council on U.S.-Arab Relations, consulting, and lecturing, he has been an Adjunct Professor at the Georgetown University School of Foreign Service's Center for Contemporary Arab Studies since 2006.

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