THE OBSTACLES TO EXPANDING COMMERCIAL RELATIONS BETWEEN THE GCC COUNTRIES AND THE UNITED STATES OF AMERICA, AND THE MEANS FOR OVERCOMING THOSE OBSTACLES

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[TRANSLATOR'S INTRODUCTION: The Gulf Cooperation Council (GCC) is an economic grouping of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The GCC was formed in 1981, and represented a significant development towards regional unification and increased commercial growth in the Arab Gulf. In 1985, the U.S.-GCC Economic Dialogue was established to explore specific measures to facilitate and expand the commercial relationship between the United States and the countries of the GCC.

The Economic Dialogue has met four times, to discuss issues such as intellectual property rights protection, foreign investment, visa restrictions, standards, and international arbitration. The fourth meeting of the Economic Dialogue took place in Washington in January 1992. As a result of the meeting, a business survey was conducted to learn U.S. perceptions about doing business in the GCC. The parties also decided to exchange white papers on opportunities and obstacles to improving commercial relations between the United States and the GCC, and to hold a private sector business conference to discuss these issues.

The U.S. business survey was conducted in May 1992, and the results were incorporated into a white paper presented to the GCC in July. The Saudi Council of Chambers' study, which makes numerous references to the U.S. white paper, was prepared as part of this on-going dialogue, and was submitted in Arabic at the U.S.-GCC Business Conference, held on 20-21 April 1993 in Washington, D.C., entitled "Toward Permanent and Common Interests".

The first sections of the Saudi Council of Chambers' study discuss the importance of expanding commercial relations between the U.S. and GCC countries, and the primary factors affecting their commercial relationships. According to the study:

The GCC countries and the U.S. represent two groups with economic, political and strategic importance to one another. They enjoy a foundation of economic relations based on mutual interests and reciprocal benefits.

Concerning the development of merchandise trade between the GCC countries and the U.S., the statistics indicate that GCC imports witnessed a large increase during the years 1991 and 1992. The value of such trade reached about $10.1 billion in 1991 (an increase of 55% from 1990), then $11 billion in 1992 (an increase of about 69% from 1990). However, this growth was not matched by the growth of GCC exports to the U.S. during those two years. The value of Gulf exports during 1991 was $11.9 billion (about the same level of Gulf exports as in 1990), then $12.8 billion during 1992 (an increase of only about 7% from 1990).

The merchandise balance of trade went through three stages during the years 1980-92, reflecting the development of U.S.-Gulf commercial relations. During the two years 1980 and 1981, the balance was in favor of the GCC countries by approximately $7 billion and $7.5 billion respectively. From the beginning of 1982 until 1986, the balance changed in favor of the U.S., and the largest commercial deficit for the GCC countries during this period was approximately $5 billion in 1983. For the most recent period, from 1987 until 1992, this balance reverted in favor of the GCC countries, with the Gulf trade surplus reaching its highest level in 1990 at $5.4 billion, and last year (1992) amounting to about $1.8 billion.

Gulf economic relations with the U.S. hold a place of preeminence in Arab-U.S. economic relations. U.S.-Gulf trade represents more than 60% of total U.S.-Arab trade.

Oil is currently controlling the level of economic and commercial cooperation between the U.S. and the GCC countries. The GCC countries are seriously trying to diversify this cooperation in the interests of the two sides.

As translated and edited below, the remainder of the Saudi Council of Chambers' study discusses the various (sometimes similar and sometimes contrasting) viewpoints of the U.S. and GCC sides.

THE OBSTACLES TO EXPANDING COMMERCIAL RELATIONS

A. An Overview of U.S. Obstacles

The obstacles arising from the U.S. side, which restrict the expansion of commercial relations between the U.S. and the GCC countries, basically center on those obstacles facing the Gulf export sector. Generally, the following summarizes the most important of these obstacles:

1. Custom duties regulations, and the import quotas applied

by the U.S., which stand as an obstacle to the increase and encouragement of non-oil Gulf exports. Quite often, the U.S. adopts procedures to protect its economy from foreign goods from specific countries. That leads to a general policy of protectionism, with a negative effect on GCC exports to the USA, at a time in which U.S. products obtain easier access into Gulf markets.

2. The U.S. side should consider the interests of the Gulf community concerning the terms and conditions of transport and shipping, rather than insisting on giving a preference to American ships. Such insistence gives rise among Gulf individuals to a feeling of inequality and unfairness. Consequently, this causes negative effects on the flow of goods between the U.S. and the GCC.

3. Terms and conditions which the U.S. imposes to limit the contents of goods for import and export, and the ambiguity of the terms applicable to U.S. trademarks, and the terms and conditions for importing Gulf products.

4. Lack of U.S. interest towards expanding Gulf banking relationships, which would play an important role in facilitating trade and commercial relations. Instead, the U.S. has placed restraints on the work of branches of commercial banks in the U.S. market.

5. U.S. laws governing foreign investment place some restraints on such investment in a number of areas in the U.S., on the basis of national interest. There is no doubt that this restriction narrows the opportunities for expansion of commercial relations which could be achieved by Gulf and U.S. individuals through joint investments.

6. U.S. anti-boycott laws, which form effective restraints on U.S. trade with the GCC states and the Arab countries in general, because the U.S. law prohibits U.S. companies from submitting to boycotts requests. This, no doubt, impedes many areas of cooperation between the U.S. and GCC countries, and causes much economic damage to U.S. companies because of their adherence to such policy.

7. The recent detrimental initiative from the U.S., by proposing the imposition of a tax on petroleum imports, under the rubric "energy tax". The U.S. ignores the danger of such a measure on its commercial relations with the GCC. Such a measure will not only cause a reduction in the value of Gulf exports to the U.S., but also will reduce Gulf imports of U.S. products, because of the resulting reduction in GCC oil revenue which "pays the bill" for Gulf imports from the U.S.

We think that the proposal to impose an energy tax, if it is implemented, will be responsible by itself for wrecking any attempts or hopes from the U.S. and Gulf sides to increase and strengthen commercial relations.

B. An Overview of Gulf Obstacles

Despite the obstacles arising from the U.S. side which impede expansion of commercial trade relations with the GCC, the bitter truth is that many obstacles arise from the Gulf side as well. In general, we can summarize the most important of these obstacles as follows:

1. Although the GCC countries are developing countries, and although they play an important role in supporting the political and economic stability in the world, on the whole they are not benefiting from the general system of preferences which the U.S. grants to developing countries. The treatment which the GCC states give to U.S. exports is at least as favorable as the treatment which the members of GATT provide (if not more favorable than the great majority of GATT developing states). Nonetheless because the GCC countries have not joined GATT, the U.S. is not obligated to treat the GCC States according to the rules of the fourth chapter of the GATT agreement, i.e., the treatment available in commercial transactions involving developing countries. (Kuwait is the only GCC country that has officially joined GATT.)

2. The inconsistency and lack of uniformity in Gulf specifications and standards applied in the GCC. Indeed, there are still some Gulf countries who are not seriously interested in this matter, which affects both imported and Gulf-made goods.

3. Although twelve years have passed since the establishment of the GCC, and there is increasing cooperation between the GCC countries in many matters, nonetheless each GCC country even now has the freedom to apply its own special trade laws. This puts greater responsibility on the Gulf communities to quickly complete the procedures for establishing the anticipated customs union for the six Gulf states, in preparation for establishing a Gulf common market.

4. The GCC has not yet taken any real effective measure towards achieving economic integration in their important sectors, i.e., the oil refining industry, the petro-chemical industry, and some basic mineral industries, even though such initiatives are flourishing at the international level.

5. There is ambiguity in the goals relating to export expansion, i.e., there is no clear relationships or ties between Gulf exports and production plans (except in the case of petro-chemicals). This is caused by the lack of an accurate estimate of real exporting capacity, in addition to the lack of coordination between the GCC countries concerning a policy of granting aid for exports. Such measures are considered a basic condition needed to support a competitive position for Gulf exports.

6. The lack of highly effective insurance organizations in the Gulf region, which creates financial problems limiting the expansion of commercial relations with the U.S.

7. Usually GCC countries export their products to foreign markets (including the U.S. market) through "case by case transactions", and not through continuing supply arrangements. In this regard, the Gulf supplier concentrates on a particular deal itself, trying to obtain the best possible terms or seeking to get rid of the products, but without any serious consideration to on-going or future transactions. Therefore, transactions do not follow a single pattern as to terms of sale and payment. Rather, there is a different style to every deal, reflecting the lack of collective standards for negotiating or concluding contracts. This leaves the Gulf arena to individual behavior, in a world moving toward economic blocs and collective negotiations.

8. Gulf exporters and importers lack experience in concluding commercial contracts with, and they lack information about, the consumer market in the U.S. In this light, the two sides to the current dialog have joint responsibility for providing information and explanations on the terms of commercial relations.

C. United States' Perspective on Expanding Trade and Investment

The Gulf side fully appreciates the sincere wish of the U.S. (mentioned in the white paper) towards expanding commercial, investment and financial cooperation with the GCC countries. The next portion of the study is devoted to the U.S. perspective (particularly from the aspect of expanding commercial relations). At the same time, we provide some Gulf observations:

1. Failure of the GCC Countries to join GATT

The GCC countries do not disagree with the U.S. suggestion (contained in the white paper) concerning the need for the GCC countries to apply the provisions of the GATT agreement. In fact, most of the Gulf countries do not show preference in their importing, nor show preference in their commercial policies, and open their markets to all imports, especially U.S. imports. This is confirmed by the rise in value of GCC imports from the U.S., to more than U.S. $10 billion in 1991, and approximately U.S. $11 billion in 1992, compared to US $6.5 billion in 1990.

The GCC countries do not use subsidies to encourage their exports. As for their exports of petrochemicals and aluminum, and the reduction in the price of these exports witnessed in world markets, it is because of the decrease in production expenses in these industries in the GCC countries, mainly because of the plentiful supply of basic materials and the inexpensive energy component, but not because of subsidies to encourage these exports.

Generally, although Kuwait is the only Gulf state which has joined GATT, the five remaining GCC countries currently put this matter at the top of the list of their interests. From another perspective, however, the largest portion of Gulf exports (petroleum and its derivatives) enter world markets without customs duties, and prices are determined in world commodity markets. Even petrochemical products are not yet considered "manufactured products" for these purposes.

2. Arbitration for Resolving Commercial Disputes

There is no doubt that the GCC countries welcome arbitration as a means of resolving commercial disputes. The white paper asks the Gulf countries to follow the example of Kuwait and sign the International Commercial Arbitration Convention, in order to preclude the intervention of government authorities in the two disputing countries to resolve the commercial dispute -- as is the current situation. The remaining GCC countries have a real interest in this subject, and they already have begun to take quick steps towards creating this type of arbitration. Even now, work has been undertaken necessary for establishing three centers for commercial arbitration in the Gulf region:

a. Gulf Commercial Arbitration Center

In late 1992/early 1993, Bahrain began to take measures necessary for establishing a commercial arbitration center in Bahrain.

The Gulf Commercial Arbitration Center will concentrate on resolving all disputes which arise from all facets of commercial relations between merchants and companies. Also, the Gulf character of the Center does not preclude it from settling disputes which might occur between Gulf parties and parties from other countries, regardless of nationality; or disputes in which one of the parties is a governmental entity from one of the GCC states.

b. <u>International Commercial Arbitral Center</u>

The Chamber of Commerce and Industry of Bahrain cooperated with the International Commercial Center for Arbitration (ICCA), in organizing a conference for international commercial arbitration on 15-18 February 1993 in Bahrain, working towards the establishment of an International Commercial Arbitral Center. In this framework, a draft Bahraini law for international commercial arbitration was prepared, based on the rules of the UNCITRAL model law issued in 1985. Thus, the Bahraini law is similar to the model law -- with some exceptions required by Bahraini national interest. This makes the Center, from the moment of its announcement, an important center to which one may have recourse for international commercial arbitration, particularly considering the ease of its procedures and its independence from the judiciary.

c. <u>Arab International Commercial Arbitration Center</u>

The GCC countries, with other Arab countries, are seeking to apply a draft law on Arab commercial arbitration. The Technical Secretariat of the Arab League authorized this draft law, along the same lines as the model law issued by the technical committee at the U.N., in charge of applying the UNCITRAL International Arbitration Law.

3. <u>U.S. Restrictions on Gulf Exports of Ready Made Clothes</u>

The GCC countries believe that they have the right to sell their exports in the U.S. markets without any obstacles or restrictions. Their right is supported by the announced U.S. position which calls for respecting the principle of international commercial freedom, as well as the obligations of the GATT treaty.

But U.S. practices show the opposite, by restricting some imports to the U.S. market. In particular, we emphasize the exports of some Gulf countries (Bahrain, the UAE, and Qatar) because these countries usually are categorized as developing countries, which enjoy the U.S. system of preferences (GSP). According to that preferential system, customs duties on U.S. imports from developing countries should be designed to encourage such imports. But at the same time, the U.S. system imposes conditions which cancel these preferences. One of the most important of these conditions applies if exporting countries exceed their specified quantity of exported goods, whereupon the U.S. government is allowed to assess the customary (unreduced) customs duties on excess imports.

The greater problem is that the U.S. government has not simply imposed tax on such excess imports, but rather applied a quota system, designating for each Gulf country a specified share of the ready made clothing products which are exported to the U.S. markets. This forced these Gulf countries to restrict or prohibit the establishment of more factories and forced them, from another perspective, to join the International Textile Organization, one of whose most prominent missions is to protect factory owners producing ready made clothes from the negative effects of the quota distribution system.

4. Free Trade in Services

a. The Perspective of Developing Countries

The GCC countries have followed the GATT negotiations continuing since 1986 in the framework of the Uruguay Round, wherein a major clause was added to liberalize international trade, i.e., freeing the services sectors. The GCC countries believe that this subject takes on great importance for developing countries, as this free trade in services will produce negative effects on the development plans and programs in these countries. The advanced industrial countries demand quick movement towards "free trade", and this leads to supporting international competition for trade in services. However, the developing countries --- including the Gulf countries which have not yet joined GATT (except Kuwait) -- look at this matter from a more broader perspective, towards their own development, with the view of benefiting from the services sectors, which helps achieve the aims of their social and economic development plans. From another perspective, the developing countries do not object to cooperation concerning trade in services, but those countries should be allowed to make the necessary reservations, and to put temporary restrictions on such free trade in the event of negative effects on their balance of payments.

b. Insurance

In the white paper, the U.S. side calls for free trade in services, including the insurance sector, requesting the GCC countries to open their markets to foreign (especially U.S.) insurance and reinsurance company activities. The U.S. side criticizes the policy of the Gulf states in discriminating against foreign insurance companies, except in the UAE, where foreign insurance companies are established -- the share of their investment in the market is 27%. The GCC countries impose reservations on insurance activity and on permitting big U.S. insurance companies to work in the GCC countries. If free trade was achieved, the Gulf market would be divided between foreign insurance companies and Gulf companies, and in a short time the market would be transformed completely to favor the interests of these foreign companies. The U.S. companies (and the other foreign companies in general) could "flood" the market with their giant capabilities, which permits them means to greatly reduce the price of the insurance policy.

c. Maritime Shipping

The U.S. white paper criticizes most of the Gulf countries because they ship their foreign trade on completely Gulf-owned ships, such as United Arab Shipping Company (owned by the governments of Kuwait, Bahrain, the UAE, Qatar, Saudi Arabia and Iraq) or majority Gulf-owned ships. The white paper considered such conduct, favoring the interest of the Gulf fleet at the expense of Western fleets, whether U.S. or European, to be an obstacle to free international trade, and consequently an obstacle to the flow of goods between the U.S. and the Gulf countries. The U.S. requested the Gulf states to free up maritime shipping services, and to transport their trade on all international commercial shipping lines, regardless of the nationality of the owners of the ships.

In general, the GCC countries believe that they have the natural right to transport their trade - the value of which reaches billions of dollars - on Gulf ships. The main reason for this is that 90% of the trade of the GCC countries is transported by sea, while the capacity of the Gulf commercial fleet at best does not exceed 1% of the capacity of the world's commercial fleets. At the Arab level, the Arab commercial fleet possesses approximately 13.3 million dead weight metric tons, compared to 642.8 million dead weight metric tons for the international commercial fleet, i.e., not more than 2% of the world's capacity. The Gulf countries -- which are still considered developing countries -- are seeking to establish the foundations for agricultural and industrial development, and to establish the basic infrastructure for their countries, including the building of ports and large commercial fleets to transport their foreign trade. Thus, whether in response to the rise in shipping costs or to support the Gulf commercial fleet, the Gulf countries have the right to give priority to their national fleets, then to other Gulf and then Arab fleets, when transporting their trade.

5. <u>System of Counter-Trade (Offset)</u>

The U.S. white paper criticized some of the GCC countries for resorting to the system of offset. Although the white paper does not object to U.S. companies agreeing to such an arrangement in their military sales contracts, the white paper rejects such an arrangement in commercial sales contracts.

The GCC countries believe that they have the right to adopt this system of offset. The GCC countries are developing countries who are trying to quickly move forward to achieve their strategic goal, <u>i.e.</u>, complete social and economic development, including obtaining the most modern inventions and developed technology. Therefore, the GCC countries seek to benefit by applying this offset system to reach a kind of balance between the value of the military and civilian contracts signed with foreign companies on the one hand, and the need for economic development in the GCC countries on the other. This balance is reached by requiring foreign companies to reinvest a percentage (ranging in value between 30-60% of the value of the contract) in the contracting country, whether by direct investment by establishing new projects in cooperation with local capital, or by granting local contractors subcontracts equalling the percentage agreed for reinvestment. One must appreciate the views of the GCC countries in this matter, for they have their practical and economic reasons for requiring offset, not merely from the perspective of their self interest, but from the perspective of expanding mutual investment cooperation and supporting the efforts of the developing GCC countries to serve their future generations.

6. <u>Disparity in Customs Duties in the GCC Countries</u>

The U.S. white paper criticizes two aspects of the customs duties applied in the Gulf countries:

> First, the rise in the rates of customs duties in some of the Gulf countries, particularly Saudi Arabia, in which the U.S. side alleges that customs duties on some goods has increased to 30% of the value of the good, forming an obstacle to the free flow of products imported into the Saudi market, while customs duties have decreased in most of the other Gulf countries to 5% or less, as is the case in the UAE; and
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> Second, the dissimilarity in the rates of customs duties imposed in the GCC countries, which creates difficulties for the U.S. investor and exporter when conducting business with the Gulf countries, by not being able to treat them as a single Gulf market.

Therefore, the white paper emphasizes the need for a single and reduced customs duty in all the GCC countries.

The GCC countries agree with this view, directed towards the establishment of a single customs duty for the GCC states. The subject (a single customs duty) is one of the primary components of the anticipated Gulf common market, and the GCC countries are seeking to establish a customs union between their countries, according to Articles 4 and 5 of the GCC United Economic Agreement, which states the need for the GCC countries to unify the customs duties amongst themselves towards the world. A unified customs duty is expected, and then moving towards a customs union, at the latest by March 1994.

However, we must mention that the customs duties applied in Saudi Arabia definitely has not been increased to 30%. Instead, the general rate is between 7-12% on more than 95% of imported goods subject to customs duties. Any higher percentage is only applied in specific situations relating to excessive imports or harmful competition to basic local products, and which is not applied currently to any practical extent.

7. <u>Standard Specifications</u>

According to the U.S. white paper, Gulf apathy regarding specifications and standards forms an important obstacle restricting commercial trade, especially where specifications are unclear and do not reach world levels, or the obligation to meet such specifications is not comprehensive and complete in the Gulf countries.

We must mention that the GCC countries are taking quick steps toward unifying specifications and standards for goods manufactured in their countries. One cannot ignore the role of standards when talking about Gulf economic unification, because the exchange of goods and services are facilitated by unified standard specifications. This also leads to increased demand for larger quantities with established specifications, instead of scattered demand for products with differing Gulf specifications. This would help to increase the competitive ability of the unified Gulf market <u>vis-a-vis</u> economic blocs elsewhere in the world.

In 1982, the GCC countries established an organization for standards and specifications for the GCC countries, to crystalize the wishes of these countries to unify and integrate their economies by coordinating specifications and standards, and to lay down the principles and means for confirming quality, including defining the principles of legal and industrial standards, and issuing certificates of conformity and quality marks, and preparing and executing plans pertaining to different standardization activities. Also, Gulf standard specifications define the appropriate levels of quality which must be achieved in goods circulating in the region, whether manufactured locally or imported from abroad.

The Gulf standards organization has established a fixed policy when issuing Gulf standard specifications or establishing any procedure, and this policy reflects the fact that the GCC countries follow a principle of free trade, allowing all goods to honestly compete, i.e., the Gulf specifications allow the circulation of any good as long as it is compatible with the prevailing circumstances, and meets necessary quality and safety. The same standards are applied to national products. There is no better way to demonstrate the neutrality of Gulf specifications than to point to the principles which the Gulf standards organization follows, summarized below:

> When Gulf specifications are prepared, care is taken so that these specifications are not an obstacle to the free flow of international trade. Thus, the Gulf standards organization expects exporting countries to abide by these specifications, and to cooperate with the Gulf countries in their efforts and procedures. From this, we see an essential opportunity to support cooperation between the National Institute of Standards and Technology (NIST) and the Gulf standards organization.

The GCC countries suggest that the U.S. side cooperate in the field of specifications and standards through:

- Cooperation in the field of certifying certificates of conformity and quality marks, and authorizing laboratories working in each of the two sides to coordinate with national departments for measurements, leading to mutual recognition, removing technical "road blocks", and encouraging the flow of goods and national products of both sides.

- The U.S. side should help train cadres working in the concerned GCC departments, and in the national factories, about preparing specifications, the means of testing and checking and measuring and standardization, adjusting and confirming and supervising quality, and other relevant fields.

- Agreeing on plans for supplying the concerned GCC departments with long- and short-term U.S. technical expertise, according to the priorities and needs which these plans would define, leading to developing various inspection areas in the GCC countries.

In conclusion, the GCC countries are seriously interested in applying and unifying standard specifications, for their positive effects on encouraging national industry, integrating markets, and supporting international economic cooperation.

8. Procedures and Rules for Protecting Intellectual Property

The chambers of the GCC countries agree with the U.S. white paper's request to apply laws and legislation protecting intellectual property. The Gulf chambers believe that the GCC countries, especially the UAE, to which this remark (in the white paper) is apparently intended, have taken serious steps in applying legislation for protecting two types of intellectual property:

- Industrial property, including inventions, trade marks, drawings and industrial models.

- Literary works, and visual, audio, photographic and musical works of art.

The UAE (and all the GCC countries) will cooperate in this field with the World Intellectual Property Organization (WIPO), as the UAE completes consultations concerning the preparation of a final draft for a patent office which will be established in the Industrial Department of the Ministry of Finance and Industry, to apply the law protecting industrial property.

Gulf Views Concerning the Obstacles

1. Views of Gulf Exporters

The following are the results of a questionnaire given to Gulf exporters about the obstacles limiting expansion of commercial relations between them and their U.S. trading partners:

- 66.7% of Gulf exporters face difficulties and problems exporting their products to U.S. partners.

As to the nature of these problems, the responses to the questionnaire indicate that some problems result from contractual arrangements, and some result from the terms of financing and payment. The Gulf exporters who face these problems unanimously agree (100% of the responses) that the source of these problems is attributable to the policies, regulations and procedures applied in the U.S. In addition, some exporters consider the increase in shipping fees to the

U.S. (amounting up to 50% of the sale price) as one of the most important problems which limits their exporting activities to the U.S. market.

- It was clear also from the questionnaire that 62.5% of the Gulf exporters have products facing procedural or administrative difficulties in entering the U.S. market. Two sources of these difficulties were mentioned by an equal percentage (28.5%) of respondents: (i) the constraints of customs duties resulting from the U.S.' application of the general system of preferences, or the constraints represented by application of the U.S.' import quota system, and (ii) the application of procedures discriminating on Gulf products exported to the U.S. Less important was the procedural or administrative difficulties (14.2% of the responses to the questionnaire) resulting from conditions limiting the contents of exported goods or the supporting documents.

2. <u>Views of Gulf Importers</u>

The following are the results of the questionnaire given to a sample of Gulf businessmen who import from the U.S. market:

- 86.7% of the Gulf importers surveyed face problems with their U.S. trading partners. This percentage, and the percentage of Gulf exporters who are also facing problems, is so large as to require the two sides (U.S. and Gulf) to discuss the matter further, whether in this (Washington, D.C.) conference or in other upcoming dialogues.

- As to the most important contractual problems which face Gulf importers with their U.S. trading partners, such problems are -- listed according to their importance -- stringency in terms of payment; the inflated price of goods imported to the GCC countries; the rise in shipping costs; the delay in receiving orders, past the date agreed upon; and changes to payment terms.

As to the financial obstacles which face Gulf exporters in their transactions with U.S. companies, at the top of the list is the problem of requiring full coverage of the value of the goods in advance through a local bank; next is the stringency in documents regarding documentary letters of credit. Concerning the obstacles to importing capital assets, the responses emphasized the increased cost of training by the U.S. side.

THE MEANS FOR OVERCOMING THE OBSTACLES

Theoretical and in-the-field studies make clear that the way to expand commercial relations between the GCC countries and the U.S. is by overcoming the obstacles which restrict these relations. In other words, it is necessary to strengthen the weak points in commercial relations between the two sides, and to reenforce the strong points.

In our view, the means for overcoming these obstacles can generally be summarized as follows:

Concerning the U.S. Side

1. The U.S. side must realize that the GCC countries, despite their financial capabilities, are after all developing countries. Their financial resources are based on one exhaustible resource. Moreover, the treatment which U.S. exports receive in the markets of the GCC countries is not less favorable than the treatment provided to U.S. exports by any other developing country, if not more favorable than most. Consequently, it is logical that the U.S. provide preferential treatment to the GCC countries which is not less favorable than that which the U.S. provides to other developing countries. Then the Gulf parties will feel that their products receive the same treatment in the U.S. markets as U.S. products receive in the Gulf markets. The basis for this request is perhaps evident to those who followed the well-known case of Saudi steel exports to the U.S. As a result of investigations, an "estimated" (add-on) duty of 10.5% was imposed on these exports, in addition to the usual duty, on the pretext that these imports would damage the U.S. domestic industry.

2. The U.S. should give long and careful thought to the proposal regarding the imposition of a new energy tax; and look to the long-term interests and economic cooperation and the efforts exerted to expand commercial relations between the two sides. We should mention that the GCC countries, who accept responsibility for participating to ensure the stability of the international oil market (headed by the U.S. market), cannot bear the damaging consequences which might befall international trade in general, or the consequential troubles which surely will occur, as soon as this tax is imposed on U.S. petroleum imports.

3. The U.S. side needs to reexamine the U.S. anti-boycott laws, because these laws hinder many areas of commercial cooperation between the GCC countries and the U.S. In particular, the U.S. side should review the anti-boycott laws in light of the

changes that the Arab countries have introduced into the regulations and procedures of their boycott against Israel.

<u>Concerning the Gulf Side</u>.

The GCC countries must take some measures to help overcome the obstacles which limit the expansion of commercial relations with the U.S. Such measures include:

1. The GCC countries should exert their strongest efforts to move more quickly towards wider economic unification, especially in the unification of customs procedures applied in the GCC countries, and in the unification of commercial policies.

2. The GCC countries need to take bigger steps towards integrating important sectors in the GCC countries, in addition to developing a united commercial strategy, especially by joining commercial treaties (GATT) to benefit from the general system of preferences.

3. There is a need for some of the GCC countries to complete the necessary measures concerning intellectual property rights, patents and literary rights, with rules for supervising the application of trademark regulations existing within the Gulf countries.

4. There is a need to provide a highly efficient information system to serve businessmen in the GCC countries (importers and exporters), furnishing adequate information on the U.S. market and other foreign markets which constitute the primary trading partners for the Gulf countries.

5. There is a need to supervise the application of trade mark regulations applied in the GCC countries, to avoid any trade in counterfeit products which come from some other foreign countries.

<u>Concerning the U.S. and Gulf Sides Together</u>

The U.S. and GCC countries together must take certain measures to overcome the obstacles which limit expansion of commercial relations between them. The most important of these measure may be:

1. Working to find the necessary means to encourage joint venture companies through private sector investment. This could be achieved by providing studies and information to businessmen, guiding them to available U.S. and Gulf investment opportunities.

2. Focusing on the importance of businessmen's meetings and the exchange of visits by delegations to discuss different matters of interest to both sides, whether concerning trade or mutual investment; and possibly reexamining (in a new form) the goals of the dialogue, to develop and sustain it in light of changes in the international arena. It would be useful in this regard to establish a specialized organization composed of members from both sides with the purpose of stimulating trade between them.

3. The need to find stronger cooperation between exporters, importers, insurance companies and shippers who, to a large extent, impact the cost of trade between the two groups.

4. Encouraging financial and banking establishments from both sides to play a more favorable role in financing imports and exports between the two sides. This could be done if such establishments would set aside some of their resources for the anticipated increase in commercial relations between the two sides.

5. Working towards achieving harmony and conformity in Gulf and U.S. specifications.

As for the views of Gulf businessmen (importers and exporters) who have commercial transactions with the U.S., perhaps the most important groups of suggestions are:

- Moving toward more industrial and commercial partnerships.

- Establishing trade fairs and increasing the exchange of visits by commercial delegations.

- Providing more extensive information for businessmen (importers and exporters) about commercial opportunities, facilities and advantages which the other side makes available in business transactions.

- Reexamining U.S. anti-boycott laws, in light of developments in the Arab countries which have occurred recently in boycott procedures and documents.

- Working on reinforcing the trust between the U.S. producer and the Gulf agent.

CONCLUSIONS

In conclusion, we can say that all indications point towards economic coexistence and the need for commercial and economic cooperation between the U.S. and the GCC countries. A closer relationship can be developed between the two sides, by concentrating on the common ground on which the two sides stand. In addition, the parties began to study the development of these relations some time ago, and the role of the governments (on both sides) is open for discussion. These governments are interested in supporting any organizations which are agreed upon. The joint committees were the early steps in this direction. Businessmen have the responsibility of continuing this process. What is needed now is to clarify new goals and a new method for cooperation, particularly because the relationships between businessmen and governments on both sides are currently existing in favorable conditions.

We believe that ambitions goals are difficult to translate into values and quantities capable of inclusion within the framework of a unified comprehensive agreement for economic cooperation between the two sides, except after a long process of practical and committed negotiations. In this regard, Gulf importers consider agreements for the reciprocal reduction of customs to be the first priority. As for Gulf exporters, the first priority is a multilateral (Gulf-U.S.) agreement establishing the "most favored nation" principle.

As mentioned previously in this study, the current framework for organizing economic relations between the U.S. and the GCC countries takes a bilateral, rather than a unified form, because the U.S. has concluded different bilateral agreements with each of the Gulf countries. This bilateral form does not represent the ideal framework for organizing commercial relations between the two groups. Such relations should be organized in the framework of a unified commercial agreement between the U.S. and the GCC countries, treating the GCC countries as one regional group.

For this purpose, discussions must be directed towards supporting official negotiations between both sides, to exert best efforts toward reaching such a commercial agreement which takes into consideration the long-term strategic and economic interests of both sides. (This should not ignore the conditions resulting from the different levels of development between the U.S. and the GCC). Perhaps this could help to overcome any problems that hinder the expansion of commercial relations between the two sides, and open future horizons which favor economic and commercial relations between the GCC countries and the U.S.

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