

THE POLITICAL ECONOMY OF RENTIER STATES: UNDERSTANDING BARRIERS ON ECONOMIC REFORM AND INTEGRATION IN GCC STATES

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Received: 1 Sept 2021, Revised: 28 Sept 2021, Accepted: 29 Oct 2021

ABSTRACT

The GCC states' high dependence on the hydrocarbon sector does not reflect a sustainable economy. Therefore, it is demanded that those states reform the economic system that has long been preserved and accelerate economic integration in the region to reduce oil dependence. This article aims to analyze the hindrances to the economic reform program and the intention to achieve economic integration within the rentier state in the Arab Gulf states. This article uses a qualitative method through an explanatory and descriptive approach to elaborate on the issues. This study indicates that a comprehensive economic reform in GCC countries is hard to implement due to the existing political structure and socio-cultural conditions. Were to reform the economic system totally, rulers would have a dilemma regarding the regime's sustainability. Meanwhile, the move towards economic integration within the GCC countries remains unachievable due to such unresolved issues as mistrust among member countries, powerless GCC's structural organization, and the lack of interdependency-complex in pursuing wealth and prosperity.

Keywords: rentier state; economic reform; GCC; hydrocarbon sector; sustainable economy

ABSTRAK

Ketergantungan tinggi negara-negara GCC pada sektor hidrokarbon tidak mencerminkan ekonomi yang berkelanjutan. Mereka perlu mereformasi sistem ekonominya yang telah lama berjalan sambil mewujudkan integrasi ekonomi di kawasan demi melepas ketergantungan pada sektor hidrokarbon. Artikel ini bertujuan untuk menganalisis hambatan pada program reformasi dan intensi untuk mewujudkan integrasi ekonomi dalam lingkup rentier state di kawasan Teluk Arab. Artikel ini menggunakan metode kualitatif melalui pendekatan eksplanatori dan deskriptif dalam menjawab persoalan yang dikemukakan. Hasil penelitian ini menunjukkan bahwa proses reformasi ekonomi negara-negara GCC terhambat oleh struktur politik dan kondisi sosial dan budaya yang ada. Para penguasa memiliki dilema terhadap keberlangsungan rezim apabila reformasi sistem ekonomi yang telah berjalan dilakukan secara total. Sementara itu, intensi GCC untuk mewujudkan integrasi ekonomi di kawasan masih terhambat oleh krisis kepercayaan antar negara anggota, absennya badan atau otoritas tinggi di GCC yang berada di atas negara dan kurangnya interdependensi antara mereka dalam membangun kesejahteraan dan perekonomian.

Kata kunci: rentier states; reformasi ekonomi; GCC; hidrokarbon; ekonomi berkelanjutan

INTRODUCTION

Since discovering energy resources, the GCC countries have shown significant development. The exploitation of energy resources enables those countries to finance the rapid development process in the region. However, this endowment has led the Gulf states to depend greatly on oil and gas to support the economy. This dependence is less viable for a sustainable economy as oil and gas reserves have reduced significantly. Even though the revenues have reached a peak and are expected to remain high for the foreseeable future, this economic model appears insufficient to constantly finance the Gulf's economic system. The demographic reality of the rapidly growing population and the increasing burden of dependence are the main reasons behind this situation (Hvidt, 2015).

Reforms to the existing economic model in the Gulf region must take place. Economic diversification, in this case, is a must. In order to diversify the hydrocarbon-based economy, the GCC countries have been investing most of their petrodollars to support start-up companies, encourage entrepreneurship, and provide job opportunities for local citizens. However, they must realize that current diversification efforts require radical reforms in financial markets, workforce, privatization, and bureaucratic, legal, and organizational affairs (Zaidan, Al-Saidi, & Hammad, 2019).

From the current reform, we see that the GCC countries have developed the non-oil sector. From 2013 to 2017, the proportion of oil in GDP fell by almost 20% across the GCC. However, the data shows that reform and diversification in the GCC are uneven, either based on sector or country. Some countries, such as the United Arab Emirates, appear to be more successful with Dubai as a model, while others are progressing but slow and insignificant (Zaidan et al., 2019). Thus, it is crucial to figure out why the economic reform process in GCC shows a different pace, even though Gulf states have things in common such as culture, social characteristics, and economic system. What are the determining factors that lead those countries to show the different paces of reform?

Furthermore, another major issue that we can highlight from the GCC countries is economic integration. Economic integration has an essential role in supporting and accelerating the economic reform in GCC countries. Besides, it might lead the Gulf states to establish a free trade zone, form a customs union, create a common market, and use a single currency (Abdulqader, 2015). If they can achieve these goals optimally, the Gulf countries can eliminate their dependence on the hydrocarbon sector. The Gulf states have long planned the integration in the region since the establishment of the GCC in 1981. Article 4 of the GCC charter states that the GCC aims to achieve integration and interconnection in various fields such as economy, education, research, socio-culture, and transportation (Savinsky, 2021). In December 2001, GCC leaders even ratified the latest version of the treaty. Full economic integration becomes the elites' primary concern for the national economic development of each country

(Abdulqader, 2015).

To achieve economic integration, the GCC countries have supporting attributes such as geographical proximity, common political (monarchy) and economic (rentier) systems, and shared customs, traditions, language, and religion. Although the integration has been progressing, such advantages have not led to the full implementation of economic integration. From the phenomenon, this study also analyzes the barriers to the manifestation of economic integration in the GCC.

Some studies have discussed the political economy of the gulf countries. Most of them focus on the issue of why the Gulf countries still depend on the hydrocarbon sector (Ulrichsen, 2017), what are the opportunities for the renewable energy sector (Lilliestam & Patt, 2015), and how far has the economic diversification been successful (Albassam, 2015). While many scholars had researched economic reform (Hvidt, 2011; Ulrichsen, 2016) and integration (Abdulqader, 2015; Al-Ubaydli & Jones, 2018; Gurrib, 2012; Savinsky, 2021) in the gulf region, few really examined the barriers through deep analysis of the effects of the Gulf states' economic system and socio-cultural reality on those two issues. In this article, the authors seek to analyze further the barriers faced by the GCC countries while carrying out reforms and manifesting the region's economic integration by profoundly exploring the reality of the Gulf's economic system and socio-cultural life.

RESEARCH METHOD

In conducting this research, the authors use qualitative research methods. Qualitative methods are used because they can provide a lot of descriptive and explanatory details in elaborating research results in the social field related to the phenomena that occur in them. This method provides a detailed description of what is happening in the investigated setting (Bryman, 2012). Using qualitative research methods, this article seeks to understand the meaning, process, and deep context of an event or social behavior observed (Bakry, 2016). Qualitative research, furthermore, could provide a variety of data sources that can be processed and given meaning in a comprehensive, complete, and accurate manner (Creswell, 2019). This article uses such data sources as document-based data and the internet. The author tries to collect factual information related to economic reform and integration in the Arabian Gulf states from various documents such as books, journals, and scientific reports. We then strengthen and support these sources by those originating from the internet, such as online news pages. Either document-based or internet-based is relevant in writing this article because several advantages are offered in overcoming resource limitations and problems encountered during research. Moreover, the collected data were analyzed using the analytical method developed by Matthew B. Miles and A. Michael Hubberman. According to Miles and Hubberman, as Lune and Berg (2017) cited, there are three stages in analyzing data: data reduction, presentation, and conclusions.

RESULT AND DISCUSSION

The Political Economy of the Gulf States

Many academic discussions have elaborated on the political economy of oil-producing countries, especially in the Middle East region. The welfare state term then appears to label those countries. Scholars consider the welfare state a set of social and economic policies in countries that depend on oil as a source of income. The policies guarantee the welfare of citizens ranging from pensions, unemployment benefits, and national health services (Rose & Shiratori, 1986).

Besides, state capitalism comes up as a term that describes the development of the political economy in the Middle East. The term is inseparable from historical literature, which shows that in the Arab world, countries always play as the main actor in the political economy. By definition, state capitalism is a system in which the state functions as the main economic actor and uses the market for political gain. In other words, the state plays as the main actor in carrying out the function of capital by constantly turning groups of workers into the exploited proletariat. The state also acts as owner, supervisor, regulator, court, and creditor at the same time (Thompson, 2016). State capitalism is inherent in the Arab Gulf countries because, according to (Ulrichsen, 2017), oil revenues enable the states to monopolize every economic sector, followed by infrastructure expansion and rapid urban development.

The welfare state and state capitalism are not only the main paradigms that can explain the political economy of oil-rich countries such as GCC countries. Another paradigm is the rentier state. Rentier state theory has enlivened the academic realm for about half a century. Early proponents of the theory were scholars such as Hazem Beblawi and Giacomo Luciani. Although there have been many criticisms of the relevance of rentier states in explaining the political economy of oil-exporting countries, this paradigm has not been abandoned. The theory even has evolved in line with recent phenomena. Therefore, this article seeks to elaborate the rentier state paradigm in explaining the political economy of the GCC countries.

The rentier state is generally understood as a country whose income derives from sources outside the domestic geographic boundary and is transferred directly to the state (Hameed, 2020). By contrast, Schwarz (2008) defines a rentier state as a country that derives its income from exports of natural resources, especially oil and gas. Various academic studies then describe how hydrocarbon resources and other external revenues (assistance, loans, grants, and strategic leases) have enabled GCC countries to function as rentier states (Hameed, 2020).

Rentier states prioritize distribution or allocation rather than domestic production and establish patron-client relations with various interest groups. The Resource Curse Theory states that countries that rely heavily on oil rents have lower growth rates, poor development and governance, and weak democracies. Oil-rich countries in the Middle East seek the legitimacy of their autocratic governments through social contracts with

their citizens (Hameed, 2020). Political support is purchased while political rights are replaced with welfares provided and allocated by the state.

Proponents of the classical rentier state theory (RST) explain that the economy of the rentier state grows when wealth creation is centered on a small part of society while the government is the primary recipient of external rent and plays a central role in redistributing this wealth to its citizens. In other words, a rentier country can be defined as an allocative country because the income derived from oil exports frees these countries from production-based economies such as tax extracted from the citizens. Here, the paradigm of "no tax no representation" is the main view of state politics, showing that the state is autonomous from society's demands or pressures (Ulrichsen, 2017).

So long as the state can allocate a certain amount of wealth and welfare to society, the state is free to do whatever it wants. The state struggles less to attract the basis of support or domestic legitimacy because a democratic bargain basically buys the population votes in exchange for the distribution of wealth. If the community does not accept the bargain, they will deal with a strong repressive action from states' armed forces (Gray, 2011).

In order to maintain compliance and social cohesion, rentier states require to be more repressive. If not, the opportunities for political change increase, especially when the state fails to meet the people's demands on social welfare. Although rentier states struggle with the above challenges, the rentier model, according to Schwarz (2008), leads the states to stability. The availability of abundant resources can help countries maintain traditional loyalties. This, of course, can be durable as long as the state and society adhere to the social contract provided.

Rentier states need less effort to formulate economic policies; on the contrary, what it takes is only state expenditure policies. These countries have limited interest in diversifying their economies. The motivation for the state to invest and diversify economic policies is still minimal so that there is little development from non-rent income. Even though those states misallocate welfare, do corruption, and waste money, the citizens care less about it so long as the state still meets their demands and needs. This condition indeed leads the authoritarian and non-democratic governments to remain in power for a long time. In short, three things characterize rentier states. First, a low or no tax policy allows the government to buy public votes to gain political tolerance. Second, the wealth from the oil can help the state build a repressive state apparatus and institutions to secure from democratization pressures. Third, rentier states increase socio-political stagnation and cause underdevelopment (Gray, 2011).

Although the initial models and concepts of rentier states above have acceptable reasons for explaining the initial relationship between oil and authoritarianism or oil and underdevelopment, these concepts and models are currently considered unsophisticated and inadequate. The initial concept of a rentier state was challenged because Saudi

Arabia was a rentier state long before oil wealth began to flow. Before oil, the royal family depended on income from trade and the hajj. In the early days of the kingdom, the royal elite had a symbiotic financial relationship with merchants by relying on them to provide money and goods in exchange for greater freedom and new opportunities for business activities and other concessions or privileges. Besides, changes in the Middle East, especially in the Arabian Gulf countries since the 2000s that show the rise and transformation of cities to a more open and globalized one such as Dubai, Abu Dhabi, and Doha have become the next anti-thesis. The initial concept of the rentier state that has been briefly discussed above is more precisely suitable for elaborating the dynamics of the oil countries from the 1950s until the 1980s (Gray, 2011).

The classical rentier state theory (RST) may be correct that the state avoids the process of democratization or direct responsibility to society through the allocation and distribution of welfare. However, the classic RST still needs some updates and revisions, especially in explaining the debate on its relevance more comprehensively so that it applies in all Gulf Arab countries. Gray (2011) initiated a revision of the classic RST, which he calls "late rentierism" as a new way to characterize countries that are rentier ones based on income that is mainly obtained from non-productive external sources and those are non-rentier because of their economic behavior and their relationship with civil society. Gray's model is needed because rentier countries have introduced long-term policies, have been affected by globalization, have required new economic (diversification) and development policies. This is combined with the main character of rentier regimes which still do not wish to hand over any real power to the public or opposition groups.

Briefly, Gray's late rentierism has five characteristics of rentier states, all of which are suitable and relevant for all GCC countries. The five characteristics of late rentier states are: 1) non-democratic but allows some pluralism and is always more responsive, 2) welcoming to globalization, not closed but still protectionist in many ways, 3) having economic and development policies but not The development model, 4) embracing state-capitalism regardless of the adopted development policies, 5) being aware of and responsive to long-term threats (Gray, 2011). From Gray's late rentierism model, the next section of this article seeks to explore the barriers to economic reform in the realities of the GCC rentier states.

Impeding Factors for Economic Reform

The GCC countries have had the characteristics and nature of rentier states since the abundance of oil energy sources approached their economies. As mentioned earlier, the rentier state is a type of economy in which welfare is centered on a small section of society. The rentier states are also referred to as allocation or distribution countries characterized by large revenues from oil and gas exports. The states, in this case, are not forced to burden the local economy to finance its activities. When the country is free

from the national economy (production and taxes), the country is under less pressure to develop an efficient economic base. They, however, prioritize the distribution or allocation of income obtained from maximizing the export activities of energy sources (Hvidt, 2011).

The Gulf States has long adopted the rentier system. Nevertheless, how sustainable is the gulf economy by relying on that model? Populations are growing, oil reserves are declining, advances in environmentally friendly technology can reduce global demand for oil and gas, and price fluctuations make plans difficult. The GCC countries' authorities have paid attention to these issues (Herb, 2019). They have made many efforts to be less dependent on oil, for instance, through implementing economic reforms in order to achieve sustainable development.

Economic reform is not as easy as turning both hands. Typically, economic reforms take a long time and are politically challenging to implement. Reform can only be carried out if the government really struggles and takes constant efforts to achieve it. In the Gulf States cases, it is obliged that the authorities undertake economic reforms to shift from the allocation model to the production model by creating a business environment that allows the private sector to operate and invest efficiently in a transparent market environment. Besides, it is recommended that the authorities regulate simple procedures, low tariffs, and other regulations to facilitate cross-border economic activity.

In general, the Middle East and North Africa Region (MENA) countries have undertaken economic reforms since the early 1980s. In particular, Saudi Arabia, the United Arab Emirates, and Qatar, are the most enthusiast countries in carrying out reforms. Regardless of ongoing reforms, the Gulf state authorities face a dilemmatic choice. Would they preserve the distribution system of oil revenues to the entire population in order to maintain the regime's sustainability and the region's stability; or would they move to a production system that involves multiple actors in driving and diversifying the economy while continuously investing in dominating a sustainable, post-reform economy. The two options, of course, have opposite short and long-term benefits and risks (Tsai & Mezher, 2020).

Although all GCC countries have taken the path of initiating reforms, in reality, not all countries show the same progress. Some seem reluctant to implement the reforms totally and radically. Somehow, the regimes are perpetuating the states' rentier characteristics. Thus, in this section, the authors seek to explore the barriers that the Gulf countries deal with in their efforts to reform the economy, particularly in enhancing private sectors and nationalizing the workforce.

Moving from an allocation model to a production model, the GCC states have to increase and boost the role of the private sector in the country's economy. Privatization is often used as the main element in economic reform and restructuring policies. A privatization approach is also a vital tool for shifting to a market-based economy and

redistributing roles between the public and private sectors in the Arab world. Privatization and the public sector reconstruction are also tools for economic reform by eliminating inefficiency, complicated bureaucracy, extravagance, and rampant corruption in the public sector (Saadi, 2016).

Although the private sector in the Gulf states has made significant strides from the reform process, some of its activity is recycling a rentier model rather than autonomous diversification. Its interests are very much at odds with the average citizen's interests because there are very few investment opportunities for GCC citizens (Hertog, 2013). This occurs because members of the ruling family often become silent partners in business enterprises or become the main business figures in their own rights, leading the borderline between state funds and private capital to become increasingly biased due to the representation of the ruling family members who have a role on the company board.

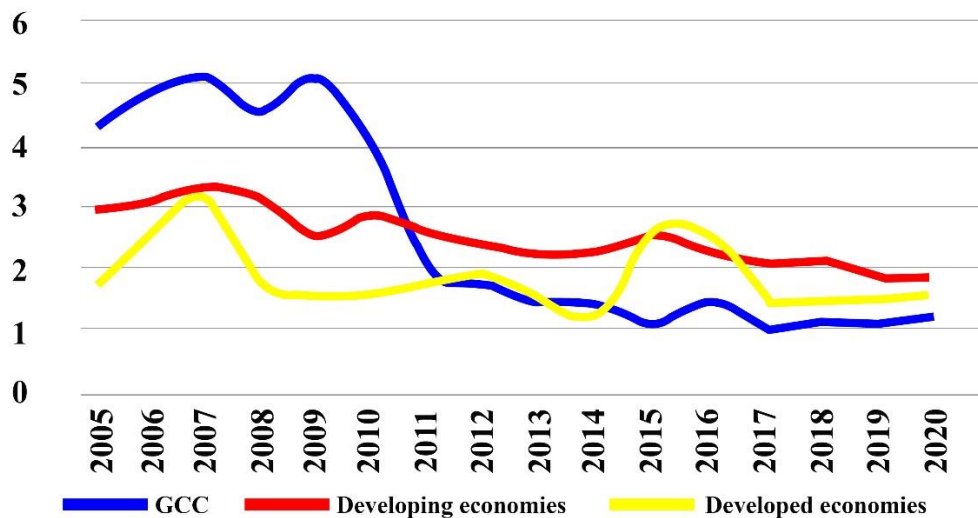


Figure 1. The Influx of Foreign Direct Investment (Percentage of GDP)
Sources: Data reprocessed from IMF (2020), UNCTAD (2020), World Bank Group (2019)

Another factor limiting private sector autonomy is the overlapping ownership structure that is ostensibly run privately. In fact, the ownership of public and private sectors is linked through marriage and inheritance (Ulrichsen, 2017). This, of course, interferes with the private sector's role in driving the course of reform. As a result, foreign investors' willingness to invest in the private sector has diminished along with such issues as political stability, trust, and human rights, often violated by Gulf countries. Thus, the privatization policy, which is still dominated and controlled by elite patrons with close relations, becomes an obstacle to the reforms led by the private sector.

Subsequently, what about the labor sector, which is arguably an essential function in the reforms leading by the private sector. In the GCC, the private sector creates

enormous job opportunities, but most of them are underpaid and dominated by expatriates. The foreign workers' domination in the GCC private labor markets indicates that most of the diversification has been skipped by the national population in the last three decades. This certainly does not reflect a good reform process of the GCC countries that seek to transform from the allocation model to the production model (Hertog, 2013).

Some GCC countries have taken dramatic actions to reduce expatriates (Sultan, 2012). Saudi Arabia, for example, imposes quotas on the private sector to employ local citizens (Ulrichsen, 2016). The nationalization of workforces does appear to have been included in reform programs; however, the facts on the ground show another challenge.

The nationalization of workforces has triggered a wave of protests among the business community. The employers regard that employing local people requires high costs, whereas human resource development remains inadequate. What needs to be considered here is the extent to which local workers who replace foreign workers have the same skills and even exceed the abilities of foreign workers so that they are totally useful.

Eventually, the authorities in the GCC countries realize that resolving labor issues take a long time. The evidence has shown that many local workers quit or leave the job in the private sector when they figure out that they have longer working hours, fewer days off, and lower wages than those working in the public sector (Wilson, 2008). According to Hvidt (2015), this barrier can only be resolved through socio-cultural changes by constantly shaping the new people's mindset.

Another obstacle faced by GCC countries during economic reform is the women empowerment issue in the workforce. Women's involvement in the workforce is a strategic issue in economic reform. It has become commonplace in other countries for women to work because alongside the purpose of empowerment, women's involvement is also necessary to increase the living condition of low-income families. The GCC countries represent a low percentage of women's involvement in the employment sector. Saudi is the country with the lowest percentage of female involvement in the workforce with 17%, followed by Oman 25%, UAE 28%, Bahrain 30%. Surprisingly, Qatar shows the most attractive and significant number, with 38%. The data shows that Qatar has the highest female employment rate compared to other Gulf countries, so that it makes Qatar the best place for women who want to build a professional career (Golkowska, 2014).

What causes the minimal role of women in the workforce is social morals which Muslim Arab society still holds. In the Gulf countries, especially in Saudi Arabia, it is still taboo to see men and women work in a gender-mixed environment. Allowing women to work is the same as allowing them to mingle. This situation is difficult to avoid because no place in the world can really separate and provide a barrier between men and women at work. Besides, the reality that men are the breadwinners is another

factor in explaining the minimal role of women in the workforce (James-Hawkins, Qutteina, & Yount, 2017). This condition has played a significant role in slowing down the progress of economic reform. On the one hand, transforming from the allocation to the production system means opening up as many jobs as possible for citizens by maximizing the role of the private sector. On the other hand, building an independent society that does not rely on the state's welfare will be difficult to achieve if gender inequality in the workforce persists, especially in an era where living conditions are costly and high.

Barriers in Economic Integration Programs in GCC

GCC countries have realized the difficult prospects in the future if they constantly depend on the hydrocarbon sector (Sultan, 2012). The volatility of oil prices occurred in the 1970s, and a series of social and political dynamics in the region concerns the elites about the state's survival (Low & Salazar, 2011). In addition, they have faced some common economic challenges. Therefore, the GCC countries need to develop a more robust economic integration to face the challenges of uncertain global events (Gurrib, 2012).

To integrate regional economies, the Gulf states have made integration an integral part of the GCC agenda. In November 1981, six months after the GCC was founded, the leaders of member countries ratified the Unified Economic Agreement (UEA) to plan for a gradual convergence towards an integrated economic bloc (The World Bank, 2010).

Since the ratification of the UEA, the GCC has put many efforts into regional economic integration. In 1983, GCC member countries implemented customs exemption for most domestic products and travel tariffs between member countries. GCC integration efforts then intensified in the early 2000s. In December 2001, the GCC agreed with the new ratification of the UEA. They expanded the Economic Agreement to provide equal rights for GCC citizens. In addition, the UEA in 2001 boldly outlined the plans towards greater economic integration by shifting the focus from coordination to economic integration through the establishment of customs unions, common market and development integration, and monetary unions (Low & Salazar, 2011).

Subsequently, in 2003, the GCC countries agreed to remove internal trade restrictions and set the standard and low external tariffs. The tariff of goods from member countries becomes free. Member countries also agreed to eliminate the impose of increasing tariffs to protect industries. Meanwhile, in 2008, the GCC announced a joint market aiming to create an environment in which citizens of each member country have the same rights, including the right to move, reside, work, receive social protection, retirement, health, education, and involve in various economic activities and services (The World Bank, 2010).

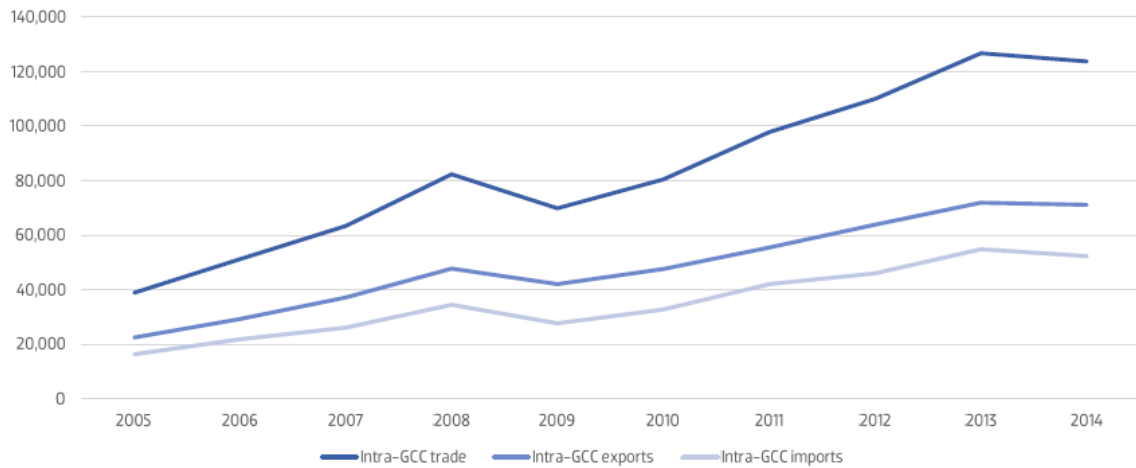


Figure 2. Intra-GCC Trade (Millions USD)
Source: (Al-Ubaydli & Jones, 2018)

Given the effort of economic integration progress, export activities between GCC countries have increased. The Intra-GCC exports reached their peak during 2013, accounting for 72 billion USD. This figure has tripled compared to the Intra-GCC exports in 2005, which stood for 23 billion USD (Al-Ubaydli & Jones, 2018).

Despite an increase in intra-GCC trade, integration progress is still significantly below regional markets such as the European Union. There are several constraints and barriers that GCC states face in the economic integration process. The GCC countries, practically, have some benefits to support the integration process, such as strategic demographic areas (close to one another) and shared political and economic systems, customs, culture, and religion. However, they have not been able to leverage those advantages to implement economic integration fully. Thus, what are the barriers for the GCC in realizing economic integration in the region?

The authors argue that the main obstacle for GCC to implement integration is the deep mistrust between member countries. Due to the deep-rooted and growing mistrust, several integration processes have been affected. For example, trade flows at the Saudi-UAE border often suffer from congestion and periodic delays. This problem often results in a large queue of trucks in the customs process. Saudis are often concerned about smuggling and counterfeiting. Saudi's customs department strictly checks legal documents for commodities passing through the border (Low & Salazar, 2011). It takes approximately six days to complete the customs of Saudi Arabia if there is a problem with the legality of the document. As a result, in April 2012, there was a long traffic jam at the border that stretched up to 20 kilometers (O'Reilly, 2012).

Human movement is also suffering from restrictions in crossing the border. Indeed, GCC citizens can mobilize freely among GCC countries. However, business people are complaining because the movement of non-GCC citizens is still limited. Many

expatriates have an essential role in the private sector in the GCC. The absence of a pan-GCC visa, or a similar Schengen visa owned by the European Union, makes GCC countries unable to maximize the benefits related to economic integration, let alone foreign workers have an essential role in the Gulf economy (Al-Ubaydli & Jones, 2018).

Moreover, we can also find the barriers to the GCC economic integration caused by the mistrust among member countries in the monetary union program. During its launch in 2010, the UAE unilaterally withdrew and refused to join the program when Riyadh was selected as the headquarter of the GCC Central Bank. The selection of Riyadh is considered very political and more favorable to Saudi as a dominant country. Besides, the dispute also escalates regarding the type of exchange rate regime and the name of the currency (Low & Salazar, 2011).

The above cases explain that mistrust remains the main barrier for the GCC to realize economic integration in the region. Mistrust often rekindles long-standing feelings of animosity and dissension among GCC members. For example, on August 20, 2009, Saudi Arabia banned all UAE travelers carrying their identity cards from entering Saudi territory because the ID card contained a map of the UAE that does not match the border agreement signed by the two countries in 1974 (Sultan, 2012). Such Incidents indeed break the relations between member states, and the situation is undoubtedly harmful to the future of the Gulf regional economic integrity.

Many hesitate the GCC's real intention to manifest integration because they saw that the initial purpose of the GCC establishment was not to focus on economic cooperation. Price (2012) argues that the purpose of the GCC establishment is not a product of current economic issues. Therefore, barriers to economic integration in the GCC may occur. The GCC tends to focus more on a security issue than an economic one, particularly the response to security threats emerging from post-revolutionary Iranian Islamic fundamentalists, the Iraqi Ba'ath party, the civil war in Yemen, and the Soviet invasion of Afghanistan. All of them were threats that could threaten the security of the monarchy regime in the Gulf, leading them to possibly engage in a wider conflict.

Price's argument above seems justifiable as one of the initial objectives of the GCC establishment was to strengthen regional security. However, Price forgot that in the process, the Gulf states also cooperate in other sectors (the economy, in this case), for example, the economic integration program within the UEA ratifications in 1981 and 2001.

Perhaps, another factor that hinders the realization of the GCC's economic integration program is the absence of a high body or authority acting as the supervisor of integration implementation. As a result, when a member country does not comply with an agreement or is not in line with the integration program, no severe formal sanctions are imposed against that country, especially related to membership status. This case is different from the European Union, where the European Commission has the power to impose sanctions and fines on its member states who have violated EU

law. Indeed, the organizational structure of the GCC has administrative bodies that have their relative roles and powers. However, their power is less than that of the member states themselves. Thus, the organizational structure in the GCC is considered only as an intergovernmental forum rather than a powerful integrated political entity (Al-Ubaydli & Jones, 2018; Low & Salazar, 2011).

The absence of an authoritative body in the GCC organizational structure leads a more powerful state to become the dominant actor. Having a larger geographical area and population, Saudi Arabia seeks to become the leading country in the region. With this superiority, Saudi Arabia frequently intervenes in the foreign policy of member countries when they feel that the policy does not agree with the GCC policy course. For example, in 2017, Saudi Arabia (along with the United Arab Emirates and Bahrain) broke diplomatic ties with Qatar, followed by a land, sea, and air blockade. The sanctions were imposed because Saudi regarded Qatar's foreign policy jeopardizes their interests in the region. They accused Qatar of funding and protecting the Moslem Brotherhood, which Saudi and its allies consider a terrorist organization, and being too close to Iran. Moreover, Saudi and its allies regard Al Jazeera as a dangerous media that threatens the interests of Gulf monarchies (Milton-Edwards, 2020).

The allegations against Qatar have caused the dissolution of diplomatic ties between Qatar and other Gulf states for four years since 2017 (Ulrichsen, 2021). Qatar has to deal with isolation and embargo from its neighbors. Qatar is indeed the most affected party in this situation. However, the worsening crisis also affected other Gulf states, which then causes the new barrier in GCC economic integration program.

Furthermore, the economic integration program is increasingly hampered because Gulf states have no interdependency-complex between them. The economy's dependence on the hydrocarbon sector leads the GCC to have low intra-trade activity in the region, poor macroeconomic fundamentals convergence, and weak business cycle synchronization. Therefore, GCC member states should agree on nominal criteria which is more appropriate to their economic system as an integration effort. Gulf states must re-evaluate how they implement macroeconomic policies in a coordinated manner to manifest full economic integration. Finally, the Gulf states must take radical steps to achieve successful integration. The steps include eliminating domestic and cross-border distortions that hinder trade and investment, coordinating strategic policies, and enhancing political alliances (Gurrib, 2012).

CONCLUSION

The Gulf countries must pursue and implement reform programs to shift from allocation to a production model economy. The reform of the economic system becomes necessary as the population is growing, oil reserves gradually decline, technological advances can reduce world demand for oil and gas, and price fluctuations make planning difficult. Those challenges are excessive cautions that the GCC countries cannot continuously rely on their petrodollars to improve society's welfare.

Economic reform is an arduous task, usually time-consuming and politically challenging to implement. Therefore, any country seeking to carry out reform will face challenges and obstacles throughout the process. In the Gulf states' cases, the reform barriers lie in the realities of the political and socio-cultural structures. Gulf states' authorities are basically caught in a dilemma whether they preserve the allocation system with all the benefits or switch to the production system with all the risks associated with regime security and legitimacy. Subsequently, Economic reforms in the Gulf states through the privatization process appear to be hampered by the ownership bias in the private sector, which is still dominated and tied to the ruling family. This situation has had a destructive impact, thereby reducing foreign direct investment. Meanwhile, the labor sector also becomes a hindrance to reform. The private sector regards that the policy of workforce nationalization obstructs their effort to lead reform because the skills and abilities of local workers remain in high contrast to foreign workers. The reluctance of local citizens to work in the private sector due to the lack of benefits compared to working in the public sector is another stumbling block. Finally, women's empowerment in the workforce remains low because of religious doctrines and cultural values. The barriers in reforms certainly affect the country's economic performance. They will have an impact on economic integration programs in the region. The main challenge for GCC to manifest economic integration derives from the mistrust among the GCC member states, caused by historical disputes and conflicts among them. Furthermore, the barriers to manifest integration in the region emerge because no authoritative body in the GCC organizational structure can unify policies and impose sanctions on those who do not comply with the common policy and agreement. Consequently, as a dominant state, Saudi always plays its role as a policymaker in the GCC as it desires to become the leading country in the region. Finally, having abundant energy resources, GCC states have no interdependency complex among them. Interdependence is the main factor for successful integration. However, Gulf states tend to underestimate economic cooperation in the region as they feel independent in building prosperity and wealth due to reserving abundant energy resources. As a result, the issue becomes another barrier in the GCC effort to manifest economic integration in the region.

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