

Gulf Cooperation Council Achievements and Challenges

Navigating Regional and International Relations

Edited by

Ashraf Mohamed Keshk and Mona Saad AlResais

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The Editors

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Introduction – Gulf Cooperation Council: Evaluative Vision

Dr. Ashraf Mohammed Keshk

Regional security as a concept finds its legal basis in Chapter VIII of the Charter of the United Nations entitled “Regional Arrangements” and it included three articles “52, 53, 54”, where Article 52 stipulates that “nothing in the present Charter precludes the existence of regional arrangements or agencies for dealing with such matters relating to the maintenance of international peace and security as are appropriate for regional action provided that such arrangements or agencies and their activities are consistent with the Purposes and Principles of the United Nations.” According to this legal basis, many regional security organizations were established in the world, including the Cooperation Council for the Arab States of the Gulf (GCC), as a comprehensive regional organization that includes 6 homogeneous countries and prevents other countries from joining it. Like other regional organizations, the GCC has faced many challenges throughout its journey, including the diverging visions of academics about the Council. For instance, there are opinions that see the existence of the Council and the holding of its meetings, whether at the summit or ministerial level, does reflect the will and the necessity for the member states of the continuation of the Council as a collective self-umbrella to preserve the security of the Arabian Gulf. Another set of opinions believe that the Council has not witnessed a significant development in line with the internal transformations witnessed by the Arab Gulf states, in addition to regional and global developments. This requires a scientific discussion to answer several questions, including how to evaluate the experience of the Cooperation Council according to the criteria of the emergence and functioning of regional / sub-regional security organizations? How has the Gulf Cooperation Council responded to changes in the regional environment over four decades? Has the GCC witnessed an institutional development like the European Union? How was this reflected in the Council’s

performance on various issues? What are the priorities that the Council has had an interest in since its inception until now? What is the impact of proposals to establish regional security formulas on the existence of the Council itself? Does the Gulf Cooperation Council have integrated strategies to confront the new security threats to the Arab Gulf states, especially cyber and maritime security threats? What is the impact of the escalation of conflict and international competition on the regional role of the Gulf Cooperation Council?

The GCC was established on May 25, 1981, and includes 6 countries: the Kingdom of Saudi Arabia, the United Arab Emirates, State of Kuwait, Sultanate of Oman, Kingdom of Bahrain, and State of Qatar. Although geographical proximity is one of the foundations for the establishment of the Council, the six countries are similar in their political, economic, and social systems, as well as share a common history. The emergence of the Council was linked to several security threats faced by the Arab Gulf states, which motivated the common conviction of the leaders of those countries that each country alone is not able to confront these threats. Some of these threats were the success of the 1979 Iranian revolution and its principles which include exporting the revolution and the Gulf states were its first target. Another major threat was the outbreak of the Iraq-Iran war in 1980, in the desire of both sides to change the balance of power in the Arab Gulf region, which was an unprecedented challenge for the Arab Gulf states. Moreover, there was a division amongst the Arab states following the signing of the Camp David agreement between Egypt and Israel 1978. Additionally, the Soviet invasion of Afghanistan in 1979 at the height of the Cold War, posed a challenge to the Arab Gulf states, with the United States calling for the establishment of a military deployment force to protect oil sources and confront the influence of the Soviet Union.

Despite these threats, which reflects that security environment was the basis for the establishment of the Council, this was not significantly reflected in the charter, which includes 22 articles, none of which stipulates security and defense cooperation. Article 4 of the charter stipulated the goal of coordination and integration, leading to unity in the

economic and social fields. Perhaps the drafters of the charter wanted cooperation between the Arab Gulf states to adopt a gradual formula like the establishment of the European Union (the European Coal and Steel Community in 1951), starting with the economic goals up to security and defense issues.

This does not mean that security and defense cooperation was not a priority for the Arab Gulf states, but rather found its way through two mechanisms, the first: approval of the establishment of the Peninsula Shield Force in 1982, which witnessed many developments, the last of which was the establishment of the Gulf Cooperation Council's Unified Military Command to include the Peninsula Shield Force, GCC Unified Command and Control Unified Air Defense Operations Center, and the Unified Maritime Operations Center. The second: the signing by the Arab Gulf states of the Joint Gulf Defense agreement in 2000. It consists of 12 articles that reflect the vision of the Gulf states that the security of the Gulf is indivisible, especially the second article of that agreement entitled "Aggression and Threat," which stipulates that "Member States consider that any attack on any of them is an attack on all of them and any threat to one of them is a threat to all of them." It is comparable to Article 5 of the charter establishing the North Atlantic Treaty Organization (NATO), and Article 3 of the Gulf Agreement completes the ways to respond to the aggression against one of the Gulf states.

Military cooperation between the Gulf states has witnessed other developments, including the establishment of the Unified Maritime Operations Center in 2014, the approval of the Communications security project in 1995 and the start of its official operation in 2000, the establishment of the Cooperation Belt project in 1995 to link the operations centers of the air force and air defense in the armed forces in the GCC countries, and the first phase started at the end of 2001. Moreover, the joint military training programs were implemented periodically among the GCC states, and cooperation in the economic and social fields had a large share of that cooperation, including the Unified Economic Agreement in 1981 and the Economic Agreement in 2001.

On the institutional level, the Gulf Cooperation Council witnessed several important developments, in which the most important are two mechanisms. The first: is to provide an opportunity for the citizens of the Arab Gulf states to participate in the decision-making of the Council through the establishment of the advisory body in 1997. It consists of 30 members, 5 from each country, and specializes in providing its views on issues referred to it by the Supreme Council. The second: the establishment of a consultative summit in 1999, that is not linked to the official agenda or protocols of the annual Supreme Council summit and is a quick mechanism to discuss any developments that require an urgent meeting at the summit level for the Arab Gulf states.

Like other regional organizations, the GCC faced many challenges, including security crises, whether faced by one of its members, such as the Iraqi invasion of Kuwait in 1990 and the events of the Kingdom of Bahrain in 2011. There are also regional crises in which the Arab Gulf states found themselves a party to, such as the Iraq-Iran war 1980–1988 or the Yemen crisis which required a Gulf military intervention in 2015, and the Council was able to manage those crises in a way that achieves maintaining the security of its member states. These crises were a real test for the main three defense goals for any small state which are self-security, regional and international alliances, and the policy of neutrality.

At the global level, despite the establishment of the GCC, member states whether individually or on the institutional level were seeking several international partnerships aimed to achieve regional security and global security. The transformations in the international system undoubtedly have an impact on the positions of the Arab Gulf states. Moreover, there is no doubt that the Qatar crisis in 2017 was a major turning point in the course of the Gulf Cooperation Council as a regional organization. In terms of the emergence of new regional security systems, there are important variables to be taken into consideration, such as the change in the concept of the region itself, or rather the emergence of new regions with which members of the Council interact with and either influence or are influenced by them namely the conflicts in the eastern Mediterranean, and the competition in the Horn of Africa. Another important vari-

able to be considered is the emergence of several collective mechanisms aimed at confronting threats to regional security such as the Islamic Military Counter Terrorism Coalition, the Global Coalition to Defeat ISIS, as well as some regional groupings such as the Council of Arab and African States bordering the Red Sea and Gulf of Aden and the Djibouti Code of Conduct to Combat Maritime Piracy. These mechanisms and alliances include some of the Arab Gulf states that are members of the Council, which raises questions about the impact of these systems on the council's endeavors as a regional security organization.

Building on the above, many questions arise about the role played by the GCC as a regional organization in addressing regional security threats, whether collectively or through examples of mediation efforts. Questions also arise about the GCC's economic achievements, its most prominent challenges, and its regional and international relations, whether with blocs like the European Union or with countries that have vital interests in the Arabian Gulf region. Additionally, there are lessons learned by the GCC from other regional experiences, such as the Association of Southeast Asian Nations (ASEAN).

Answering these questions forms the core themes of this book, presented through its various chapters, which consists of research papers discussed in a workshop titled "The Future of the GCC as an Institution." This workshop was part of the annual Gulf Research Meeting organized by the Gulf Research Center in Cambridge in 2023, which was co-directed by the editors. The papers complement one another to provide a comprehensive view of the GCC's performance, achievements, and the challenges it faces.

Part 1

The GCC: Balancing Security and Economic Diversification

Chapter 1

The GCC's Competing, Not Complementary Economic Diversification Trajectories

*Glnar Eskandar*¹

Abstract

The four-decades-old Gulf Cooperation Council (GCC) is growing more competitive than collaborative. Although the union's increasingly diversified economies have the potential to complement, instead of competing, with each other, the members' competitive drive is ironically best manifested in their domestic diversification efforts. Due to the weakness of the GCC as an institution, the member states have grown more self-regulating than union minded. The bloc's members increasingly view each other as economic adversaries instead of potential partners in areas including clean energy, air transportation, and attracting foreign investment. The biggest hurdle to greater GCC economic integration is the rising national ambitions of three economies namely – Saudi Arabia, the UAE, and Qatar.

Keywords: *Gulf Cooperation Council (GCC), competition, economic diversification, FDI*

Introduction

Two years after his country ended a full-fledged, multi-pronged three-and-a-half-year economic embargo on fellow Gulf Cooperation Council (GCC) member Qatar, the Saudi Investment Minister found himself a speaker at the Qatar Economic Forum in May 2023 and facing pointed questions regarding increasing competition within the GCC. When the

¹ Ph.D. candidate at Qatar University's Gulf Studies Program.

non-Qatari forum moderator asked him about the perceived but apparent competition between Saudi Arabia's economic diversification efforts and those of its neighbors (particularly the UAE), Minister Khalid Al-Falih replied, "If there is competition between certain capitals within the GCC, I think it is for the good of all of the GCC, and indeed it contributes to the good of the world".² His statement was more loaded, however, when he continued by emphasizing that Saudi Arabia "has a lot more [to offer]," presumably compared to its neighbors, considering its market size and the fact that Saudi Arabia's economy is nearly the size of all other GCC economies combined. His initial assertion that "within the GCC we see ourselves as a common market" felt unsupported by comparison.

Increasing intra-GCC economic competition, particularly among its three largest economies – Saudi Arabia, the UAE, and Qatar – is an unignorable phenomenon worthy of in-depth analysis. Though technically an economic bloc, the GCC has failed to enhance economic integration between its member states; with time, the weakness of the GCC as a policy-making institution left room for its member states to grow more nationally oriented and less regionally minded. The GCC's 'common market' that the Saudi Minister referred to is increasingly becoming more of a myth than a reality due to nationalist economic policies issued by various GCC member states.

Yet, the shortage of economic cooperation between the GCC states should not be surprising. The member states' economies are natural competitors. Considering the relative economic homogeneity between its member states, the existence of any form of economic cooperation is more impressive than the absence of it is puzzling. As far as economic union enablers are concerned, the GCC states have a lot going against them in the way of economic integration. The economies of the GCC are not only too homogenous in composition, but their sizes are also too heterogenous, and their comparative advantages are too similar to allow natural avenues for economic cooperation. The GCC economies have grown less homogenous over time, and there are more grounds

² *Bloomberg Live*, dir. Saudi & UK Ministers on Reengineering Globalization. 2023. <https://www.youtube.com/watch?v=zX2BNC-AcpE>.

today for intra-bloc cooperation than four decades ago at the council's launch. Yet, there is no indication that the competition is lessening even within the economic diversification trajectories of some member states.

To be clear, competition within the GCC is not an odd phenomenon. The fact that the GCC states belong to a union does not preclude them from economic competition, nor is competition inherently inferior to cooperation. Competition is rampant within other blocs, such as the EU, and even within singular economies. However, the difference between commercial competition in unions like the EU and the GCC is that the former is often private-sector driven while the latter is government-orchestrated. When governments within a union show a constant desire to excel in commercial endeavors, it may reflect diverse priorities and the challenge of efficiently allocating public funds.

This chapter does not attempt to discredit the economic benefits of fair competition. Consumers almost always benefit from the availability of increasingly competing commercial options. In a highly competitive market, the consumer has more power to choose and, therefore, demands lower prices and better qualities. However, this chapter questions the efficacy of government spending in fields where there is rampant and direct competition among neighbors instead of attempting to find specific areas of comparative advantage, where investments are more likely to yield economic benefits. If the goal of public spending is to result in the highest economic return possible, then investing in niche areas of potential comparative advantage is wiser than engaging in fierce regional competition.

In addition to briefly discussing the GCC's achievements and challenges in economic integration, this chapter examines the dynamics of cooperation and competition among GCC states by exploring three timely examples of non-hydrocarbon competition. Saudi, Emirati, and Qatari governments' endeavors to pursue competitive national economic policies in the fields of blue hydrogen and ammonia, air transportation, and attracting foreign direct investment put them at odds with each other economically. These examples of competition also underline the lack of recent GCC economic regionalization efforts and the declining desire

for such cooperation. Finally, the chapter draws on economic union theory to illustrate the fundamental challenges facing the GCC as an economic union, which fall beyond its members' potential desires to further economic cooperation.

Background: The GCC's Economic Successes and Challenges

The GCC was established in 1981 to congregate six relatively culturally homogenous states in Western Asia – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.³ The council has multifaceted ambitions, and a central pillar of its foundation is economic cooperation.⁴ Despite the great degree of homogeneity between the GCC member state's economies, or because of it, the council was founded to increase economic cooperation and even integration among the states. The earliest notable achievement toward economic cooperation is the GCC Free Trade Area of 1983 and a much-needed first step towards abandoning customs charges between the member states.⁵ Through this agreement, the relatively homogenous GCC economies quadrupled trade between them in under two decades.⁶ In 2001, the council signed an 'Economic Agreement,' which was quickly upgraded to a more concrete 'Customs Union' in 2003, to abolish all trade barriers between the states and to increase the flow of goods between the six nations.⁷

³ *Bloomberg Live, Saudi & UK Ministers.*

⁴ Article 4 of the GCC Charter is concerning cooperation in economic fields, GCC Secretariat General, "About the GCC: The Charter," accessed May 25, 2023, <https://www.gcc-sg.org/en-us/AboutGCC/Pages/Primarylaw.aspx..>

⁵ GCC Secretariat General, "The Free Trade Area," accessed May 25, 2023, <https://www.gcc-sg.org/en-us/CooperationAndAchievements/Achievements/EconomicCooperation/TheCustomsUnion/Achievements/Pages/ITheFreeTradeAreaFTA.aspx>.

⁶ GCC Secretariat General, "The Monetary Union and the Single Currency," accessed May 25, 2023, <https://www.gcc-sg.org/en-us/CooperationAndAchievements/Achievements/EconomicCooperation/TheMonetaryUnionandtheSingleCurrency/Pages/ConceptandOutset.aspx>

⁷ GCC Secretariat General, "The Customs Union," accessed May 25, 2023, <https://www.gcc-sg.org/en-us/CooperationAndAchievements/Achievements/EconomicCooperation/TheCustomsUnion/Pages/Practicalproceduresfortheestab.aspx>.

The customs union's great success was the treatment of GCC products as national goods, at least in theory.

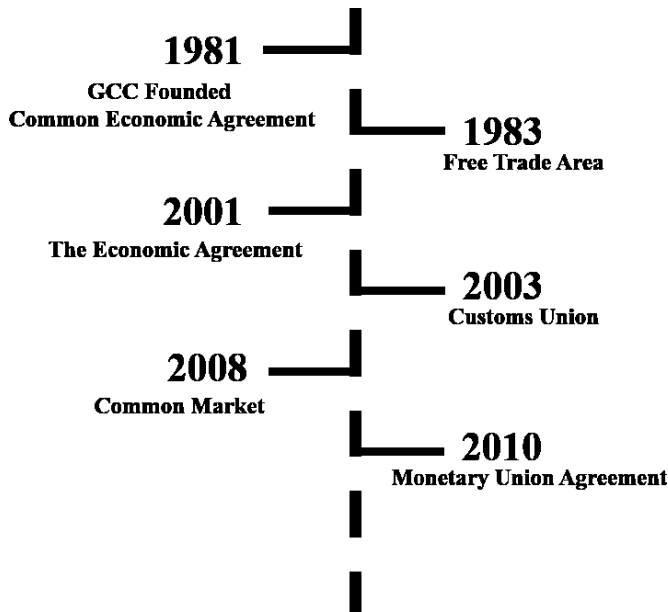


Figure 1 *GCC Economic Cooperation Achievements – Illustrated by author*

Considering that the union comprises six energy-exporting states with little else to offer each other (at least at the time of the customs union's signing), the GCC's economic collaboration milestones are not unimpressive (see figure 1). However, the next natural step toward improving economic collaboration within the council proved too ambitious: implementing the Monetary Union Agreement ratified in 2010. Efforts to convert the customs union into a monetary and economic bloc failed after 2010 and have since stalled.⁸ A monetary and economic union would not only increase trade among the six member states (intra-bloc trade) but trade between the GCC and the rest of the world (extra-bloc trade) as it would promote the view that the GCC is a unified market, easily accessible to international traders.⁹

⁸ Kristian Coates Ulrichsen, "Missed Opportunities and Failed Integration in the GCC," Arab Center Washington DC, June 1, 2018, <https://arabcenterdc.org/resource/missed-opportunities-and-failed-integration-in-the-gcc/>.

⁹ GCC Secretariat General, "About the GCC: The Charter."

The reasons behind the GCC's challenges to integrate economically vary; some scholars argue that it was due to a 'disagreement' regarding the location of the GCC central bank, while others contend that it was the fear of losing autonomous governance upon implementing a single currency and the accompanying unified Gulf "economic nationality" that stalled further economic integration.¹⁰ Regardless of the reasons for these hiccups, the GCC has not yet transitioned into a proper economic union and remains a defragmented market. Notably, not all economic or trade decisions are coordinated at the GCC level, despite the aforementioned economic integration efforts. For instance, Bahrain and Oman each have a Free Trade Agreement with the United States, signed in 2001 and 2006 respectively, while other GCC countries do not.¹¹

Furthermore, despite numerous efforts to make the GCC a 'common market' and achieve a unified "economic nationality," the recent rift between four bloc members proved that the GCC's common market is a myth, not a reality. In theory, with the Customs Union agreement, GCC goods should be considered national goods. Still, in practice, this may not always be the case with increasing efforts for economic nationalization within individual member states' economic agendas. Moreover, GCC nationals are not always immune to expropriation, and their properties may be seized, or as evidenced during the Qatar crisis, their citizens may be expelled from said common market. With this challenge to integrate and treat GCC citizens and firms equally, the member states have grown less regionally minded and more nationally driven as far as their economic trajectories are concerned. More than anything, the recent disputes within the alliance have seriously questioned the GCC's

¹⁰ Encyclopedia Britannica, "Gulf Cooperation Council (GCC)," May 4, 2023, <https://www.britannica.com/topic/Gulf-Cooperation-Council>; Shinji Takagi, "Establishing Monetary Union in the Gulf Cooperation Council: What Lessons for Regional Cooperation?" *ADBI Working Papers*, October 2012, <https://ideas.repec.org/p/ris/adbiwp/0390.html>; Knowledge at Wharton, "Despite Euro's Troubles, Gulf Common Currency Inches Forward," *Knowledge at Wharton* (blog), June 29, 2010, <https://knowledge.wharton.upenn.edu/article/despite-euros-troubles-gulf-common-currency-inches-forward/>.

¹¹ Office of the United States Trade Representative, "Trade Agreements: Free Trade Agreements," accessed June 16, 2023, <http://ustr.gov/trade-agreements/free-trade-agreements>.

strength as an institution.¹² The successful integration of GCC economies is much less certain now than four decades ago.

Blue Hydrogen and Ammonia: The GCC's New Avenues of Energy Competition

As fossil fuel exporters, the GCC's three leading economies are natural adversaries locked in competition. Notwithstanding mutually beneficial cooperation through the Organization of the Petroleum Exporting Countries (OPEC) and at the GCC-policy coordinating level, the Gulf states have always been competitive in downstream and petrochemical production activities. Since the inception of the GCC, the UAE's economy has become more diversified than Qatar's and Saudi Arabia's, yet hydrocarbons still feature heavily in these states' economic productions. In 2021, nearly 90 % of Qatar's exports and over 70 % of Saudi Arabia's fell within the minerals category, compared to about 40 % of the UAE's exports.¹³

Similarly, petrochemicals and mineral byproducts are not insignificant components of these economies' exports, particularly for Qatar and Saudi Arabia. In 2021, two-thirds of Saudi Arabia and Qatar's non-mineral exports were chemicals and plastics.¹⁴ Both countries export billions of dollars' worth of Urea and polyethylene – byproducts of natural gas and petroleum oil. In 2021, Qatar was the world's fourth-largest supplier of urea (a material used mainly in the production of plastics and fertilizers), while Saudi Arabia was the fifth largest.¹⁵ Saudi Arabia is the world's largest exporter of high- and low-density polyethylene

¹² Khalid Al-Jaber and Giorgio Cafiero, "Will the GCC Survive the Gulf Crisis?" *Gulf International Forum* (blog), October 31, 2017, <https://gulfif.org/in-the-eye-of-the-storm-will-the-gcc-survive-the-qatar-crisis/>.

¹³ OEC World, "The Observatory of Economic Complexity," 2023, <https://oec.world/>.

¹⁴ Ibid.

¹⁵ OEC World, "Urea, Including Aqueous Solution in Packs > 10 Kg," accessed June 16, 2023, <https://oec.world/en/profile/hs/urea-including-aqueous-solution-in-packs-10-kg#tra>.

(the most common type of plastic), and Qatar constantly ranks among the top ten.¹⁶

Understandably, these three fossils fuel exporting economies are attempting to find ways to add value to their energy production chains. This natural competition is not surprising, but these states' emerging tendencies to compete even in energy fields where they are not equally competitive is puzzling. A recent manifestation of this odd competition is within the field of blue hydrogen and blue ammonia production and exports. Blue hydrogen is derived from natural gas, while blue ammonia is a byproduct of blue hydrogen with nitrogen combined.¹⁷ The difference between these 'blue' products and the hydrogen and ammonia the Gulf states have previously been exporting is that 'blue' products are more environmentally friendly.¹⁸

The three GCC states began conceptualizing their diversification into the exportable and possibly lucrative blue hydrogen and blue ammonia market around the same time.¹⁹ Saudi Arabia was the first to make

¹⁶ OEC World, "Polyethylene," accessed June 16, 2023, <https://oec.world/en/profile/sitc/polyethylene>.

¹⁷ ADNOC, "ADNOC to Build World-Scale Blue Ammonia Project," accessed June 16, 2023, <https://www.adnoc.ae/en/news-and-media/press-releases/2021/adnoc-to-build-world-scale-blue-ammonia-project>; Jennifer Gnana, "What Is Blue Ammonia?" *The National*, May 24, 2021, <https://www.thenationalnews.com/business/energy/what-is-blue-ammonia-1.1229125>.

¹⁸ The production of blue hydrogen produces minimal greenhouse emissions because at least 70 % of the carbon emitted during its production process is sequestered. Though it still emits some carbon, blue hydrogen is still far cleaner than fossil fuels or hydrogen produced without carbon capture. The byproduct blue ammonia, however, does not produce carbon emissions when combusted. Blue ammonia has many uses, but in energy production, it can reduce the overall emissions of coal-powered energy plants when blue ammonia is added to coal-firing plants. Blue hydrogen and blue ammonia are not only environmentally friendly commodities but are also multi-billion international industries, expected to reach \$700 billion by 2050 as the world collectively reduces its reliance on carbon-intensive energy sources, Verity Ratcliffe, "Europe Hunts for Clean Energy in the Middle East, but How Clean Is It?" Bloomberg.com, September 28, 2022, <https://www.bloomberg.com/news/articles/2022-09-28/europe-s-blue-ammonia-cargoes-from-saudi-arabia-uae-won-t-be-carbon-free>.

¹⁹ PwC Middle East, "Saudi Arabia: Introduction of New National Rules of Origin," PwC, July 6, 2021, <https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2021/saudi-arabia-introduction-of-new-national-rules-of-origin.html>.

these plans public. In September 2020, the kingdom became the world's first exporter of blue ammonia.²⁰ In 2021, Saudi Aramco outsourced its blue hydrogen production by signing deals with South Korean, Japanese, and Chinese blue hydrogen developers.²¹ By October 2021, Saudi Aramco had ambitiously dedicated its largest shale gas field, the Jafurah gas field, for the sole purpose of producing blue hydrogen.²² In June 2022, the kingdom's Aramco ramped up its ambitions by setting a goal to produce 11 MMtpa of blue ammonia by 2030.²³ By December 2022, Saudi Arabia delivered its first shipment of blue ammonia to South Korea, showcasing its apparent ability to commercialize the production and export of this niche energy commodity.²⁴ Alas, by March 2023, the kingdom has put its blue hydrogen production strategy on hold, citing high investment costs and lack of consumers as the reasons.²⁵

Around the same time, in January 2021, the UAE hinted at its ambitions to become a major hydrogen producer when it raised its commitment

²⁰ Aramco, "World's First Blue Ammonia Shipment Opens New Route to a Sustainable Future," Aramco, September 27, 2020, <https://www.aramco.com/en/news-media/news/2020/first-blue-ammonia-shipment>.

²¹ Takeo Kumagai, "Japan's ENEOS Signs MOU with Aramco to Develop Hydrogen, Ammonia Supply Chain," March 25, 2021, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/electric-power/032521-japans-eneos-signs-mou-with-aramco-to-develop-hydrogen-ammonia-supply-chain>; Ratcliffe, "Aramco Aims to Partner With China."

²² Ishant Ugal, "Saudi Arabia Poised to Tap \$110BN Jafurah Gas Project for Blue Hydrogen," Upstream Online, October 25, 2021, <https://www.upstreamonline.com/energy-transition/saudi-arabia-poised-to-tap-110bn-jafurah-gas-project-for-blue-hydrogen/2-1-1087974>.

²³ Brinda Darasha, "Saudi Aramco Aims to Produce 11MMT Blue Ammonia; Cut Carbon Emissions," June 15, 2022, <https://www.zawya.com/en/business/energy/saudi-aramco-aims-to-produce-11mmt-blue-ammonia-cut-carbon-emissions-j4m04ocd>.

²⁴ Arab News, "Saudi Arabia Achieves Clean Energy Milestone as First Shipment of 'Blue' Ammonia Reaches South Korea," Arab News, December 14, 2022, <https://arab.news/cznx2>.

²⁵ Leigh Collins, "Correction: Saudi Aramco Struggling to Find Buyers for Its Blue Hydrogen Due to High Costs," *Upstream Online | Latest Oil and Gas News*, May 10, 2023, <https://www.upstreamonline.com/energy-transition/correction-saudi-aramco-struggling-to-find-buyers-for-its-blue-hydrogen-due-to-high-costs/2-1-1449053>.

to cut carbon emissions by 24% by 2023.²⁶ In May 2021, the Abu Dhabi National Oil Company (ADNOC) announced plans to build a world-scale blue ammonia facility utilizing Abu Dhabi's natural gas.²⁷ By November 2021, at the UN Climate Change Conference of the Parties (COP26), the UAE's Ministry of Energy and Infrastructure unveiled its "UAE Hydrogen Leadership Roadmap," stating that, by 2030, it was targeting 25% global market share of the world's low-carbon hydrogen market.²⁸ In May 2022, the UAE began investing abroad in blue hydrogen projects.²⁹ By September 2022, the UAE sent its first low-carbon ammonia shipment to Germany.³⁰ Despite the state's enthusiasm, some analysts debate the UAE's ability to be competitive in this field, given its apparent natural gas deficit, arguing that the emirates would need to import natural gas from Qatar and elsewhere to reach its blue ammonia production targets.³¹

Though the lowest-cost LNG producer and the GCC economy with the most extensive regional capacity for carbon sequestration, usage, and storage, Qatar was the last among these three countries to go public with its intent to join the blue hydrogen and ammonia race. Considering the magnitude of its eventual announcement, however, Qatar had no doubts that it would be the most competitive in this natural

²⁶ Anthony Di Paola, "UAE Aims to Become Blue Hydrogen Powerhouse to Cut Emissions," Bloomberg, January 19, 2021, <https://www.bloomberg.com/news/articles/2021-01-19/uae-can-be-major-low-cost-blue-hydrogen-producer-adnoc-ceo-says>.

²⁷ ADNOC, "ADNOC to Build World-Scale Blue Ammonia Project."

²⁸ UAE Ministry of Energy and Infrastructure. "UAE Hydrogen Roadmap." Accessed June 16, 2023. <https://u.ae/-/media/Documents-2022/UAE-Hydrogen-Roadmap--Eng.pdf>, 5.

²⁹ British Petroleum, "Abu Dhabi's ADNOC and Masdar to Join BP's UK Hydrogen Projects," accessed June 16, 2023, <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/abu-dhabis-adnoc-and-masdar-to-join-bps-uk-hydrogen-projects.html>.

³⁰ ADNOC, "ADNOC Sends First Low-Carbon Ammonia Shipment from the UAE to Germany," September 1, 2022, <https://www.adnoc.ae/en/news-and-media/press-releases/2022/adnoc-sends-first-low-carbon-ammonia-shipment-from-the-uae-to-germany>.

³¹ Charles Dolphin, Inshaal Ahmad, and Sam Ridge, "The Future of Blue Hydrogen in the Middle East," Lexology, April 25, 2023, <https://www.lexology.com/library/detail.aspx?g=6de2656e-e00b-4212-81db-3a76b5d68d29>.

gas-based niche energy market. In August 2022, Qatar announced its grand plans to build the world's largest blue ammonia facility, with the capacity of producing 1.2 million tons of blue ammonia per annum, by 2026.³² The Qatar Fertilizer Company (QAFCO) was already one of the world's largest ammonia producers. The blue ammonia project aims to turn some of this already-produced ammonia into cleaner blue ammonia by capturing and storing at least 70 % of its carbon emissions and solar powering the entire production process.³³ Nearly a year before this investment, Qatar signed an agreement to work with the UK on blue and green hydrogen projects, indicating that its interest in the market predates its ambitious production announcement.

Producing and exporting blue hydrogen and blue ammonia is arguably a positive step for natural gas producers to contribute to the global clean energy transition and reduce their carbon emissions and footprint. However, these three Gulf states do not all possess an abundance of natural gas. While all Gulf countries have gas reserves, the sizes and complexities of these reserves are not uniform.³⁴ The cost of extracting natural gas also varies significantly by GCC country. While Qatar has an abundance of natural gas, Saudi Arabia and the UAE do not produce enough natural gas to satisfy their domestic demand.³⁵ The UAE supplements limited local production with imports, while Saudi Arabia burns more expensive fuels to supplement its shortage of natural gas.³⁶

³² The Maritime Executive, "Qatar to Build World's Largest Blue Ammonia Facility," The Maritime Executive, September 1, 2022, <https://maritime-executive.com/article/qatar-to-build-world-s-largest-blue-ammonia-facility>.

³³ Santhosh V. Perumal, "World's Largest Blue Ammonia Plant in Qatar to Open by 2026," Gulf Times, August 31, 2022, <https://www.gulf-times.com/story/723511/worlds-largest-blue-ammonia-plant-in-qatar-to-open-by-2026>.

³⁴ British Petroleum, "Statistical Review of World Energy," British Petroleum, 2022, <https://www.bp.com/en/global/corporate/energy-economics/energy-outlook.html>.

³⁵ British Petroleum, "Statistical Review of World Energy," British Petroleum, 2022, <https://www.bp.com/en/global/corporate/energy-economics/energy-outlook.html>.

³⁶ IRENA, "Renewable Energy Market Analysis: GCC 2019," 2019, <https://www.irena.org/Publications/2019/Jan/Renewable-Energy-Market-Analysis-GCC-2019>.

The GCC states' varying natural gas production capacities mean that they do not share the same natural comparative advantage when it comes to blue ammonia and blue hydrogen (byproducts of natural gas). In terms of natural resource advantage alone, Qatar is far better positioned to lead the blue hydrogen and blue ammonia niche energy markets. Though not a natural advantage, but certainly helpful in this 'blue' endeavor, Qatar also has the region's largest Carbon Capture Usage and Storage (CCUS) facilities with a capacity of up to 2.1 million Metric Tons per annum (MMtpa) of carbon residual compared to the UAE and Saudi Arabia's combined 1.6 MMtpa CCUS capacity.³⁷ Unlike Saudi Arabia and the UAE, Qatar has the comparative advantage to succeed in this niche market, but this has not deterred the former two from joining the race.

GCC Carriers: Competing in the Skies

Though not a novel area of regional competition, the Gulf's airline industry is a fertile example of blatant intra-GCC economic competition. In many ways, this competition has been healthy and beneficial for consumers, but it has also been excessively and needlessly adversarial. Since the 1980s, most GCC states have poured funds into developing their own national carriers to diversify their economies and connect their markets to the global landscape.³⁸ There are 12 still-operating airlines belonging to the GCC alone: Gulf Air, Jazeera Airways, Kuwait Airways, Qatar Airways, Oman Air, SalamAir, Flynas, Saudia, Air Arabia, Emirates, Etihad Airways, and flydubai. The most successful airlines within the union belong to the UAE, Qatar, and Saudi Arabia; the former two frequently rank among the world's best.

Though seldom questioned, the commercial rationale of one economic bloc fostering several competitors in the aviation sector is peculiar. Yet,

³⁷ Dolphin, Ahmad, and Ridge, "The Future of Blue Hydrogen."

³⁸ Ahmad Zuaiter, "Middle East Airlines – Strategic Diversifiers or Serial Destroyers of Capital? (Part 1)," July 27, 2019, <https://www.linkedin.com/pulse/middle-east-airlines-strategic-diversifiers-serial-capital-zuaiter>.

it is equally difficult to deny any of these states the desire to participate in this ever-growing global industry. The aviation industry is framed as a diversifier of the hydrocarbon economy while capitalizing on cheaper fuel availability in the Gulf airlines' hubs. It connects the previously unknown Gulf countries to the world and ensures their access to airborne trade. Though an expensive industry to break into and even more costly to maintain, the economic benefits of the aviation sector are difficult to dispute. These states naturally have similar desires to profit from participating in this growing sector. Yet, their existence is mutually harmful to their balance sheets as they constantly have to lower their prices to compete to attract international and local customers.³⁹

More significantly, the Gulf's top three airlines have shown no desire to cooperate; instead, they separately collaborate with other international airlines. Qatar Airways is a member of the 'Oneworld' alliance, which also consists of 13 international carriers but excludes the UAE and Saudi Arabia.⁴⁰ Emirates similarly partners with 17 international carriers under the label 'Skywards,' but not with the Qatari or Saudi airlines.⁴¹ Likewise, Saudia's 'SkyTeam' alliance comprises 16 international carriers, excluding the UAE and Qatar.⁴² In a positive show of GCC aviation cooperation, Qatar Airways and Oman Air announced a code-sharing partnership in June 2021.⁴³ However, similar agreements do not exist between the three top aviation players in the Gulf, as they remain locked in fierce and growing competition.

If the GCC were indeed an economic bloc, some of its 'economic cooperation' discussions would center around fostering collaboration instead of

³⁹ Chris Loh, "Why Low-Cost Competition Is Heating Up In The Middle East," December 13, 2019, <https://simpleflying.com/middle-east-lcc/>.

⁴⁰ Qatar Airways, "Oneworld," accessed May 25, 2023, <https://www.qatarairways.com/en/about-qatar-airways/oneworld.html>.

⁴¹ Emirates, "Emirates Skywards Partners," accessed June 30, 2024, <https://www.emirates.com/qa/english/skywards/partners/>.

⁴² Saudia, "SkyTeam Partners," accessed May 25, 2023, http://*/pages/loyalty-program/alfursan-partners/skyteam-partners.

⁴³ Oman Air, "Oman Air, Qatar Airways Announce Reciprocal Loyalty Partnership," Omanair, November 2021, <https://www.omanair.com/gbl/en/PressRelease/oman-air-qatar-airways-announce-reciprocal-loyalty-partnership>.

competition among these airlines. These top airlines are all “super-connectors” utilizing the region’s strategic geographic location to transport people and trade. However, the region’s aviation industry is arguably over-saturated.⁴⁴ Even before the global pandemic and its severe impact on the aviation industry, the International Air Transport Association (IATA) forecasted, in 2017, that the Middle Eastern carriers would suffer declining profits. “Growing regional competition,” *Forbes* reported, is among the key reasons for these forecasted slim profit margins and “one of the biggest long-term threats” facing these airlines.⁴⁵

Serious competition within the GCC’s aviation industry began nearly four decades ago but has recently witnessed the addition of a bold new competitor: Riyadh Air. Although Saudi Arabia already has two airlines, including the Gulf’s third largest (Saudia) – and although Emirates and Qatar Airways already dominate much of the GCC skies – in March 2023, the Saudi kingdom decided it was time for another brand-new competitor. Confident in the kingdom’s geographic location, the Saudi crown prince has set a goal to operate Riyadh Air between 100 international locations in just seven years⁴⁶ Reuters, “Saudi Arabia Launches New National Airline,” March 14, 2023, <https://www.reuters.com/business/aerospace-defense/saudi-arabia-launches-new-national-airline-2023-03-12/>. This announcement followed the launching of Saudi Vision 2030, which set \$147 billion for the transportation sector, including debuting (not revamping) this airline.⁴⁷ To launch Riyadh Air’s brand-new fleet, the Saudi government is initially investing \$50 billion,

⁴⁴ The Economist, “Turkish Airlines Takes on Emirates, Etihad and Qatar Airways,” April 11, 2019, <https://www.economist.com/business/2019/04/11/turkish-airlines-takes-on-emirates-etihad-and-qatar-airways>.

⁴⁵ Dominic Dudley, “Rising Competition Threatens Profits of Middle East Airlines,” December 7, 2017, <https://www.forbes.com/sites/dominicdudley/2017/12/07/competition-threatens-profits-gulf-airlines/?sh=1a3b5da038a1>.

⁴⁶ Reuters, “Saudi Arabia Launches New National Airline,” March 14, 2023, <https://www.reuters.com/business/aerospace-defense/saudi-arabia-launches-new-national-airline-2023-03-12/>.

⁴⁷ Vivian Nereim, “Saudi Arabia Plans to Invest \$147B in Transport Sector by 2030,” July 5, 2021, <https://www.aljazeera.com/economy/2021/7/5/saudi-arabia-plans-to-invest-147b-in-transport-sector-by-2030>.

not including overhead and staffing costs.⁴⁸ Several aviation analysts have unsurprisingly concluded that “the announcement may lead to a tougher battle for passengers, going head-to-head with regional giants Emirates, Qatar Airways”.⁴⁹ Others noted that “the new airline has been strategized as a direct competitor to the other aviation super brands in the Gulf,” adding that “national pride will be at stake”.⁵⁰

Surprisingly, Saudi Arabia's ‘Saudia’ is the oldest of the GCC's top three regional competitors. Though it became a registered commercial airline only in 1963, its history arguably dates back to 1945, when it began accumulating its fleet.⁵¹ Saudi Arabia's economy was a few years ahead of its then more impoverished eastern neighbors of Qatar and the UAE, who had not yet gained their independence. Despite this head start, Saudia today lags behind the UAE and Qatar's top airlines. Though not the kingdom's only carrier, Saudia is by far the biggest. In 2007, the kingdom founded Flynas, which continues to operate and owns a fleet of over 50 carriers.⁵² In 2013, the kingdom founded Saudi Gulf Airlines, which began operations in 2016 and ceased operations in 2020.⁵³ By comparison, Saudia owns a fleet of 144 passenger planes and seven freighters, carrying nearly 32 million passengers and 160,000 tons of cargo annually as of 2022.⁵⁴

⁴⁸ Mark Saunokonoko, “Saudi Arabia's Brand New Airline, Riyadh Air, Gets \$50BN War Chest to Take on Rivals,” March 14, 2023, <https://www.9news.com.au/world/saudi-arabia-launches-50-billion-riyadh-air-airline-with-massive-boeing-order/cf994def-f7c8-4a2b-b00a-ca94f72e0bd0>.

⁴⁹ Reuters, “Saudi Arabia Launches New National Airline.”

⁵⁰ Saunokonoko, “Saudi Arabia's Brand New Airline.”

⁵¹ Saudia, “Saudia History,” accessed May 25, 2023, http://*/pages/experience/about-us/saudia-history.

⁵² Flynas, “Flynas Celebrated Its 11th Anniversary with Exclusive Offers,” Flynas.Com, February 20, 2018, <https://www.flynas.com/en/media-center/news-updates/888-11th-anniversary>.

⁵³ CBInsights, “SaudiGulf Airlines,” accessed May 26, 2023, <https://www.cbinsights.com/company/saudigulf-airlines>.

⁵⁴ Saudia Cargo, “Saudia Cargo – Our Fleet,” accessed May 26, 2023, <https://saudiacargo.com/fleets/freighters>; CEIS Data, “Passengers Traffic: Arrival: Annual: Saudi Arabian Airlines,” 2022, <https://www.ceicdata.com/en/saudi-arabia/air-transport-passengers-traffic-and-number-of-passengers-carried/passengers-traffic-arrival-annual-saudi-arabian-airlines-sa>; Lena Fawaz, “Saudia Cargo Awards Multi-Station Contract to Worldwide Flight Services,” Worldwide Flight Services (blog), February 15, 2023, <https://www.wfs.aero/saudia-cargo-awards-multi-station-contract-to-worldwide-flight-services/>.

The genesis of Emirates, the GCC's current top airline, is arguably the result of failed regional cooperation in the aviation sector. In the mid-1980s, the GCC's primary airline was Bahrain's Gulf Air, and it offered varying levels of service to the different GCC states. Hence, the Dubai royal family reportedly decided to build an airline that connected Dubai to the region in 1985.⁵⁵ The airline's original ambitions and fleet were seemingly limited in vision and scope, but by its first year of operations, it had already undercut over half of Gulf Air's profits.⁵⁶ As of 2022, Emirates has a fleet of over 250 passenger carriers and around ten cargo planes, carrying over 40 million passengers and 1.8 million tons of cargo annually and operating between 158 destinations.⁵⁷ Emirates is not the UAE's only successful airline. Not shying away from fostering in-country competition, in 2003, the government of Abu Dhabi decided to create its own airline, Etihad Airways, to connect the UAE capital to the world.⁵⁸ Etihad has a fleet of around 74 passenger carriers and five cargo freighters, and it transports approximately 10 million passengers annually and 729 thousand tons of cargo.⁵⁹

Qatar Airways was founded just eight years after Emirates in 1993 by the Qatari royal family.⁶⁰ This sole Qatari airline today is only partly owned by the Qatari state and has been locked in growing rivalry with its slightly more mature regional competitors. Somewhat more connected than its regional counterparts, the Qatari airline operates

⁵⁵ Nicholas Cummins, "From Desert to Riches: The History of Emirates," November 19, 2019, <https://simpleflying.com/emirates-airlines-history/>.

⁵⁶ Ibid.

⁵⁷ Emirates, "Emirates Group Announces 2022-23 Results," 2023, <https://www.emirates.com/media-centre/emirates-group-announces-2022-23-results/>.

⁵⁸ GlobAir. "Etihad Airways." Accessed May 26, 2023. <https://www.globairgroup.com/int/etihad.html>.

⁵⁹ Salma Saleh, "Etihad Airways: Cargo Tonnage 2021," Statista, September 16, 2022, <https://www.statista.com/statistics/529960/etihad-airways-cargo-tonnage/>; Etihad Airways, "Etihad Airways Celebrates Flying 10 Millionth Passenger in 2022," Etihad Global, December 29, 2022, <https://www.etihad.com/en/news/etihad-airways-celebrates-flying-10-millionth-passenger-in-2022>; Etihad Airways, "Discover the Etihad Fleet," accessed May 26, 2023, <https://www.etihad.com/en-qa/fly-etihad/our-fleet>.

⁶⁰ SeatMaestro, "Qatar Airways," SeatMaestro, accessed May 26, 2023, <https://www.seatmaestro.com/airlines-seating-maps/qatar-airways/history/>.

between 174 destinations, mainly because the Qatari aviation player also has more cargo destinations than all other GCC competitors.⁶¹ With a fleet comprising 208 passenger planes and 28 freighters, Qatar Airways carried 18.5 million passengers and 1.7 million tons of cargo in 2022.⁶² Seemingly successful on their own, these top three GCC carriers constantly compete for global and regional passengers and have shown little effort to cooperate, indicating that national pride may indeed be at stake.

FDI Competition: The Clearest Sign of GCC Weakening

Although the GCC states are more capital-intensive than most of their neighboring nations, attracting foreign direct investment (FDI) is still a vital ambition of the union's three leading economies. Almost all GCC economies have engaged in FDI deregulation and economic liberalization, but the GCC's three leading economies have had notable successes in attracting foreign investment. These FDI deregulating policies are positive developments on their own and when viewed within the context of individual national economic growth. Nonetheless, within the context of the GCC as an economic union, they are setbacks to economic integration. These nationally minded policies transcend the regional ethos of the GCC, further widening the economic gap within the union. Indeed, these policies were designed – outside of the framework of the GCC – precisely to set economies apart from each other and to make specific markets more attractive to foreign funds.

Though not historically known for its foreign-friendly market, Saudi Arabia has made numerous progressive strides over the past few years

⁶¹ Daniel Martínez Garbuno, "Qatar Airways Unveils Seven New Destinations and 11 Resumptions," Simple Flying, March 7, 2023, <https://simpleflying.com/qatar-airways-unveils-seven-new-destinations-11-resumptions/>.

⁶² Chris Loh, "Back On Good Terms With Airbus! The Qatar Airways Fleet In 2023," March 4, 2023, <https://simpleflying.com/back-on-good-terms-with-airbus-the-qatar-airways-fleet-in-2023/>; Salma Saleh, "Qatar Airways Cargo, '2022: A Year That Spells Success for Qatar Airways Cargo,'" January 11, 2023, <https://www.qr-cargo.com/s/company/press-releases/a0z4K000004S0mjQAC/2022-a-year-that-spells-success-for-qatar-airways-cargo>.

to attract FDI. Surprisingly, Saudi Arabia's investment climate liberalization precedes its smaller neighbors in several ways. For one, the Saudi kingdom was among the first in the region (along with the Dubai emirate) to formally liberalize non-nationals real estate ownership in 2011.⁶³ Saudi Arabia was also among the first in the region to liberalize its stock exchange in 2015.⁶⁴ Though not yet permitting full foreign ownership in most economic sectors, Saudi Arabia preceded Qatar and the UAE when it allowed full foreign ownership in its onshore retail and wholesale trade sector in June 2016.⁶⁵ To further promote economic diversification and attract foreign investment, in October 2018, the country allowed foreign investment in four additional onshore services sectors, including media and land transportation.⁶⁶

These efforts to attract foreign investment to the kingdom intensified in recent years through the creation of several tax-free economic zones, investment promotion efforts, and privatization initiatives. In April 2022, the Saudi government launched four new special economic zones distributed across the country to attract FDI. In November 2022, it launched a new regional logistics hub near its international airport in Riyadh that vowed to allow full foreign ownership of investment and offer a 50-year exemption from corporate taxes.⁶⁷ By April 2023,

⁶³ International Business Times, "Saudis Allow Foreigners to Own Property; But Market Remains Tight," *International Business Times*, February 3, 2011, <https://www.ibtimes.com/saudis-allow-foreigners-own-property-market-remains-tight-262973>.

⁶⁴ UNCTAD, "Saudi Arabia - Government Opens the Stock Market, Known as the Tadawul, to Foreign Investors," *Investment Policy Hub*, June 15, 2015, <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/2765/saudi-arabia-government-opens-the-stock-market-known-as-the-tadawul-to-foreign-investors>.

⁶⁵ Arabian Business, "Saudi Arabia Approves 100% Foreign Ownership in Retail," *Arabian Business*, June 15, 2016, <https://www.arabianbusiness.com/industries/retail/saudi-arabia-approves-100-foreign-ownership-in-retail-635351>.

⁶⁶ Saudi Gazette, "Foreign Investment Allowed in 4 Key Sectors," *Saudi Gazette*, October 23, 2018, <http://saudigazette.com.sa/article/546329/SAUDI-ARABIA/Foreign-investment-allowed-in-4-key-sectors>.

⁶⁷ Will Phillips, "Saudi Arabia Launches Four New Economic Zones," *Supply Management*, April 18, 2023, <https://www.cips.org/supply-management/news/2023/april/saudi-arabia-launches-four-new-economic-zones-/>; HKTDC Research, "Saudi Arabia: First Special Integrated Logistics Zone Opens," HKTDC Research, November 21, 2022, <https://research.hktdc.com/en/article/MTIyNjk4MDA3OQ>.