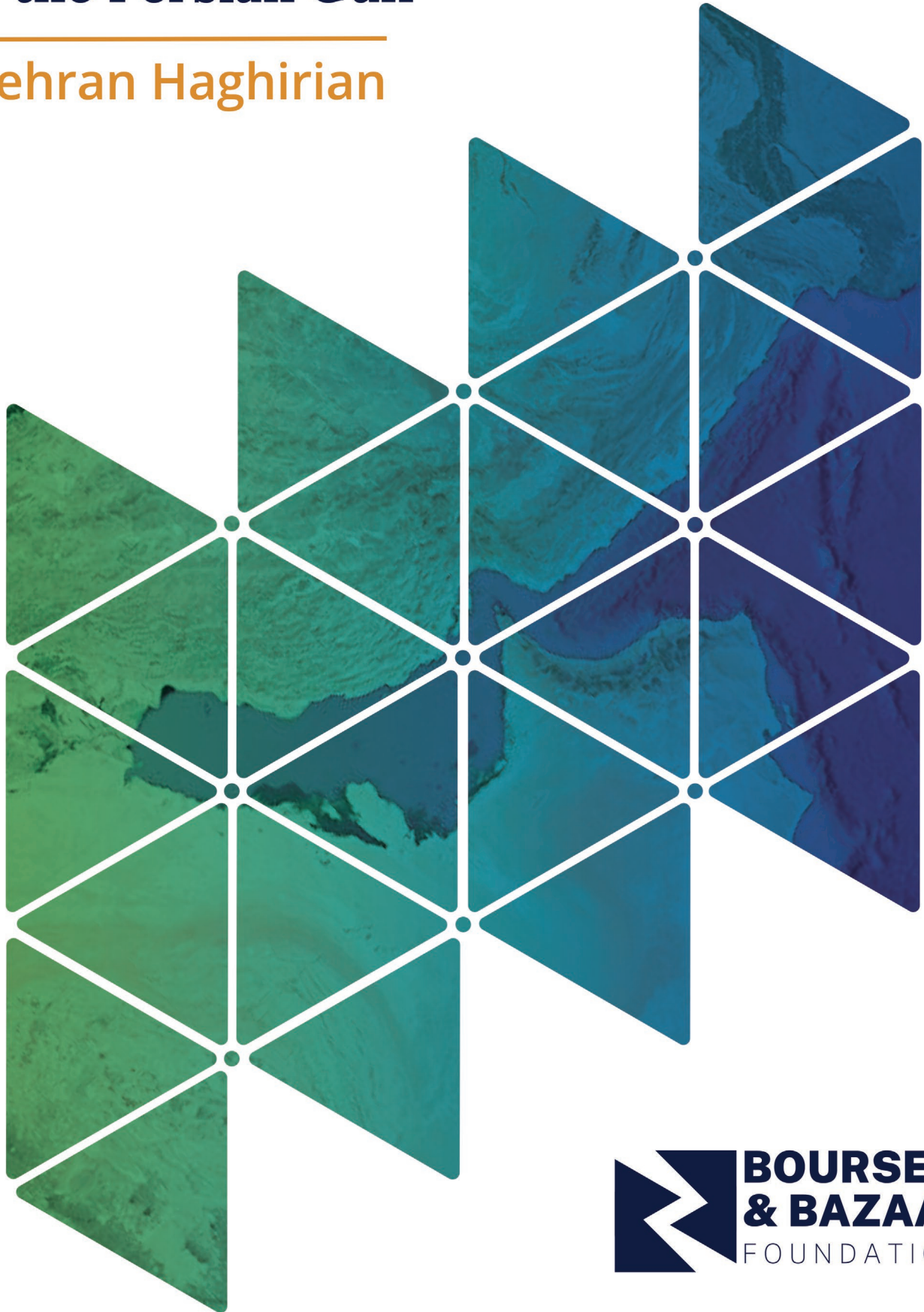


# New Horizons

## for Regional Economic Diplomacy in the Persian Gulf

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# Introduction

To date, research and convenings on Iran-Arab relations have been predominantly focused on political issues and security tensions, including sectarianism and proxy wars. The ways that shared economic incentives could chart a path towards more constructive regional ties have been largely overlooked. While some scholars have written on Iran's economic ties with the UAE and Iraq, and, more recently with Oman and Qatar, these writings have been periodic and spurred by geopolitical developments. Literature on intra-Gulf Cooperation Council (GCC) relations has also largely focused on security-related issues. These studies have looked at economic relations as a bilateral phenomenon and have not provided a framework to understand the untapped economic potential of greater economic integration among the countries of the region.

This report analyses the new geopolitical developments and foreign policy shifts in the region to identify the drivers behind the new horizons for regional diplomacy and the potentials for regional economic integration. The objective of this report is to assess whether regional economic integration can support regional diplomacy and is conducive to better outcomes in the political and security dialogues now underway. This report draws on the perspectives of 24 policymakers, analysts and scholars to assess the feasibility of using regional economic integration to support more constructive bilateral and multilateral relations between Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. These perspectives were gathered through individual research interviews and a half-day online workshop conducted in November 2021, held under the Chatham House Rule.

# ▶ New Horizons for Regional Diplomacy

The 2003 US invasion of Iraq set in motion a two-decades-long securitised dynamic in the Persian Gulf region and, as a result, political survival superseded any other consideration in the decision-making processes of all GCC states and Iran. At the root of most tensions during the 2003–2021 period was the augmented American military presence in the region, which pitted Iran against its southern Arab neighbours. With the Iraq War lingering on year after year, the status quo seemed to have changed to conflict in perpetuity. This assumption was reinforced with the start of the Arab Spring uprisings in 2011, which shed light on new internal security considerations, external interferences and regional power plays.

During the presidency of Barack Obama, the US accelerated its ‘Pivot to East Asia’ strategy and was adamantly keen on decreasing American presence in the Middle East. This primarily happened after the shale revolution in the US, which rendered it energy-independent, at a time when the high human and financial costs associated with its presence were no longer justifiable. The Arab Spring, however, put a pause on that policy. In addition, escalating tensions with Iran over its nuclear programme set the stage for an even more securitised dynamic in the region. While there was an attempt to change the status quo and shift the geopolitics of the region in the 2013–2016 period, that too failed primarily due to the persisting regional power plays and fears over a change in the regional balance of power.

At the same time, when the US and other world powers were negotiating an agreement with Tehran over its nuclear programme, Saudi Arabia led an effort to derail the outcome. Just days before the implementation of the Joint Comprehensive Plan of Action (JCPOA), Saudi Arabia cut all diplomatic and economic ties with Iran and rallied a number of other countries to do the same.<sup>1</sup> While Iran, the US and at least half of the GCC states were interested in de-escalating tensions in the Persian Gulf region following the implementation of the JCPOA, the developments in January 2016 rerouted the region’s path towards a state of constant chaos and conflict that got worse and more serious, lasting for five years. President Obama had hoped that Saudi Arabia and Iran would “share” the region following the resolution of the Iranian nuclear issue.<sup>2</sup> His successor, Donald Trump, however, had a different vision and pursued a policy of excluding Iran from the region.

This shift in the US approach to the region prolonged and intensified tensions from 2017 to 2021. Military conflicts were an almost daily occurrence during the four years of the Trump administration, with the most serious incidents taking place from May 2019 to January 2020.

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1. Saudi Arabia executed a prominent Shi’a cleric, Sheikh Nimr Al-Nimr, on January 2, 2016. In response, groups of Iranians protested in front of the Saudi Embassy in Tehran and the Saudi Consulate in Mashhad. The protests escalated and some protesters attacked the buildings in both cities. The following day, Saudi Arabia severed all diplomatic and economic relations with Iran and rallied other countries to follow suit. See: [Saudi Arabia cuts diplomatic ties with Iran](#). *Al Jazeera*. January 4, 2016.
  2. Jeffrey Goldberg. [The Obama Doctrine](#). *The Atlantic*. April 2016.

On 12 May 2019, four tankers were attacked in the Gulf of Oman, and a month later, two more tankers were set ablaze.<sup>3</sup> In September 2019, two of Saudi Arabia's key oil processing facilities in Khurais and Abqaiq were attacked by drones and missiles. While the Houthi movement in Yemen claimed responsibility for the attacks, both Riyadh and Washington blamed Iran.<sup>4</sup> The attack caused Aramco, the state-owned Saudi oil company, to briefly suspend the production of 5.7 million barrels a day – well over half of its overall daily output. By autumn, regional proxy battles had found a field in Iraq. Both popular and organised protests around Iraq were being fuelled by the country's neighbours, as well as by the US.<sup>5</sup> By the first week of January 2020, the US assassinated a top Iranian military commander in Baghdad, and Iran retaliated by launching a ballistic missile offensive at US bases in Iraq.<sup>6</sup>

In the midst of these tensions, it was reported that an Emirati delegation travelled to Tehran in July for discussions about maritime security.<sup>7</sup> This hedging effort by the UAE took place at the same time as it was removing itself from the war in Yemen and negotiating the terms of the Abraham Accord with the US and Israel. The Emiratis quickly realised that the escalation of tensions is costly and backtracked on the policies that they had established regarding Iran since 2017, if not earlier. Saudi Arabia, too, started back-channel talks with Iran around the same time.

In 2017, Saudi Crown Prince Mohammed bin Salman dismissed the prospects of dialogue with Iran as impossible.<sup>8</sup> By 2019, and after the escalation of tensions in the Persian Gulf and the Gulf of Oman, his posture changed. In September of that year, both the Iraqi and Pakistani prime ministers offered to act as intermediaries to facilitate a dialogue between Iran and Saudi Arabia and held several meetings in Tehran and Riyadh. These diplomatic engagements eventually led to the holding of secret back-channel talks in Baghdad in 2021.<sup>9</sup> Last April, the Saudi Crown Prince publicly shifted his position on dialogue with Iran and announced his interest in talks, saying, "Iran is a neighbouring country and all we aspire for is a good and special relationship with Iran."<sup>10</sup> These shifts illustrate that the region's leaders now favour regional diplomacy to manage their growing political, security and economic issues.

In 2021, the region saw two examples of multilateral diplomacy: the Al-Ula GCC Summit in January and the Baghdad Conference for Cooperation and Partnership in August. Al-Ula brought together all of the GCC leaders for the first time since imposition of the blockade on

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3. For timeline of incidents in 2019, see: [Factbox: Attacks, incidents heightening Gulf tensions since May](#). *Reuters*. October 11, 2019.
  4. Ben Hubbard, Palko Karasz and Stanley Reed. [Two Major Saudi Oil Installations Hit by Drone Strike, and U.S. Blames Iran](#). *The New York Times*. September 14, 2019.
  5. Vanda Felbab-Brown. [Stuck in the middle: Iraq and the enduring conflict between United States and Iran](#). *The Brookings Institution*. January 29, 2020.
  6. Peter Baker, Ronen Bergman, David D. Kirkpatrick, Julian E. Barnes and Alissa J. Rubin. [Seven Days in January: How Trump Pushed U.S. and Iran to the Brink of War](#). *The New York Times*. January 11, 2020.
  7. Rory Jones and Benoit Faucon. [Iran, UAE Discuss Maritime Security Amid Heightened Tensions in Gulf](#). *The Wall Street Journal*. July 30, 2019.
  8. Ben Hubbard. [Dialogue With Iran Is Impossible, Saudi Arabia's Defense Minister Says](#). *The New York Times*. May 2, 2017.
  9. Farnaz Fassihi and Ben Hubbard. [Saudi Arabia and Iran Make Quiet Openings to Head Off War](#). *The New York Times*. October 4, 2019.
  10. [Saudi crown prince strikes conciliatory tone towards rival Iran](#). *Al Jazeera*. April 28, 2021.

Qatar in June 2017 and was a significant step in repairing intra-GCC rifts. Just months later, the Baghdad Conference provided a unique venue for multilateral diplomacy between Iran, Iraq, Kuwait, Qatar, Saudi Arabia and the UAE, in addition to Egypt, Jordan and Turkey.<sup>11</sup> The Baghdad Conference was key to Iraq untangling itself from the regional proxy battles, but also to the country gaining a crucial position on matters of regional diplomacy. The fact must not be lost that most of these countries had not been in the same room together for years, if not decades, and the Iraqi prime minister's diplomatic manoeuvrings had allowed for the meeting to take place. Furthermore, the advancement of these diplomatic engagements also paved the way for more bilateral outreach not only within the GCC, but also between Iran and the GCC states, and between Iraq and the GCC states.

In summary, the primary driver behind the new developments in regional diplomacy is the fact that “the high level of tensions is unsustainable,” and the region's leaders have realised that “the current environment is bad for business,” as one workshop participant argued. The region faces significant challenges to economic transition as oil prices fall and reserves fade, factors that have exacerbated already strained public finances. Environmental pressures and public health crises demonstrate the need to advance beyond traditional modes of economic development and devise more sustainable and resilient pathways to prosperity. Moreover, instability in the region has diminished foreign investment and made the region less attractive as a destination for global capital and the technology that comes with it. The geoeconomic challenges arising from the COVID-19 pandemic and shifts in the global energy market are forcing all countries in the region to look at the long-term sustainability of their policies. These drivers along with mutual economic interests are what allow for a regional economic integration framework to be considered by the region's leaders today.

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11. Mehran Haghirian. [Attendance in Baghdad Shows Iran's Commitment to Regional Diplomacy](#). *Bourse & Bazaar Foundation*. August 31, 2021.



# Intra-GCC Conflicts as Barriers to Integration

The GCC states are in direct competition with one another and there is a considerable focus on national-level projects – financial centres, airlines, logistics centres – with little effort to create supranational bodies or projects. While initiatives such as the customs union and Dolphin pipeline are examples of limited regional economic integration that have been implemented, other major efforts for such integration within the GCC have failed or stagnated. Gulf Air failed as a regional project and is now the national carrier of Bahrain alone. The GCC-wide railway project has also yet to be realised.<sup>12</sup> And, additionally, the efforts to establish a single currency for all GCC states, or even the introduction of unified value-added tax policy, also failed.<sup>13</sup>

Consequently, the biggest problem that the GCC states are facing is that the GCC project itself failed to achieve economic integration as a body. As a result, competition is now embedded within the GCC, as each state has its own competing and independent vision. “The GCC states do not export resources that are complementary to each other, thus, they do not even have an economic integration platform to build on,” argued one workshop participant. The GCC states have the same necessities and priorities, and they do the same thing at the same time. The general trend, according to her, “has been about multiplication and redundancy in infrastructures rather than integration and complementarity.”

According to another workshop participant, all of the GCC states act on domestic political and economic pressures and “prioritise shoring up domestic political stability when it comes to foreign policy decision-making.” As such, the goals are different in each country. Institutionally, the GCC failed because there is no concentration of power, and no state is willing to give up their sovereignty when endorsing major moves towards integration. Moreover, the GCC states have not wanted to be dependent on one another because of concerns over economic coercion and the wish to retain coercion as a policy option. Actors, according to another participant, “see economic coercion of their adversaries by sanctions or direct attacks on their economic lifelines as a solution in the current environment.” For this reason, he argued, “the rationale and strategic logic of economic cooperation has been weak.”

One reason for the failure in effectuating regional economic integration is the fact that intra-GCC conflicts are manifested in tandem with tensions with Iran. One example of this is the more than three-year-long blockade on Qatar imposed by three GCC countries (Saudi Arabia, the UAE and Bahrain, plus Egypt) in 2017. In addition, the rising competition between the GCC countries over foreign direct investments, acting as logistics hubs and attracting tourists, is another factor diminishing the once-close relations between GCC states. The competition to host the headquarters of regional and international companies

12. Sebastian Castelier. [GCC Railway: a train across a fractured Gulf?](#) *Al Monitor*. July 27, 2020.

13. Nikhil Lohade. [Gulf Common Currency Chatter Returns Again](#). *The Wall Street Journal*. December 3, 2013.

between Saudi Arabia and the UAE is a recent example of these rising tensions in the Arabian Peninsula.

The generational shift in the GCC states has had a profound impact on the durability of the GCC as an organisation, as well as on the geopolitics of the region. All of those who were involved in building the GCC have passed away and, as one participant put it, “the new generation is more assertive and less collegial than the previous generation.” This had led to growing foreign policy adventurism in the past few years, particularly in the UAE and Saudi Arabia, both of whom engaged in a war in Yemen that continues despite the UAE’s withdrawal, they imposed a blockade on Qatar, and both supported the Trump administration’s “maximum pressure” campaign against Iran. These decisions proved costly for both Riyadh and Abu Dhabi, as well as for the stability of the region.

The younger leaders learned the hard way that the decades-long close relations and relative stability had been tied to a steadfast belief in collegiality and good neighbourly relations. Since each GCC state is invested in achieving their “national visions” in one way or another, and in most cases the younger leaders were behind the development of those visions, finding the right balance between personal foreign policy goals and pursuing national interests proved difficult. As such, “the current outreach and diplomatic manoeuvrings are to protect themselves from further regional instability,” as one participant noted. In line with this thought, another participant reasoned that “Saudi leaders may see the ‘Vision 2030’ as a spur to take a more collaborative approach if it appears going it alone has not led to results.” The same is true with regard to the influence of “national visions” in the foreign policy of the other five GCC states.



# Differing Iran Policies

The GCC states do not have a unified policy towards Iran – each state has a unique approach based on its diplomatic, economic or security considerations. Moreover, each GCC state's foreign policy decision-making calculus towards Iran includes various internal, regional and international factors. For some, Iran is a primary security concern. Saudi Arabia and the UAE perceive Iran's regional policies as directly challenging their regional influence, while Bahrain views Tehran as a threat to its survival.

On the other hand, Oman, Qatar and Kuwait have compartmentalised their concerns and interests when dealing with Iran. Oman has been a close friend of Iran's for the past five decades and the two countries have excellent political, military and economic relations. Similarly, Qatar has been steadily building on every aspect of its bilateral relations with Iran since its independence in 1971. Doha redoubled its efforts to enhance relations with Tehran following the 2017 blockade, and these efforts continue even after the Al-Ula Summit. As a sign of growing ties between the two countries, Ebrahim Raisi travelled to Doha in February 2022 as his first trip to the region to attend the Gas Exporting Countries Forum. Both Oman and Qatar have been key in mediating or facilitating dialogue between Tehran and Washington, as well.<sup>14</sup> Kuwait, too, has been steadfast in keeping cordial diplomatic ties and working economic relations with Iran and has been a key actor in mediating talks between Iran and the GCC states. While many political issues exist, these three smaller sheikhdoms are adamantly pursuing a mixed strategy of hedging and balancing in the region that benefits their moderating influence. The GCC states were not unified in their position towards the JCPOA either and were similarly divided on their level of support for the agreement.

The most striking public illustration of the GCC states' change in approach towards Iran came during two meetings in Riyadh: the US-GCC Iran Working Group on 17 November 2021, and the Meeting of the E3 + US with the GCC on 18 November 2021.<sup>15</sup> During these meetings, the GCC states voiced their support for the revival of the JCPOA and went so far as to declare in the statement with the E3 Political Directors and the US Special Envoy for Iran that “enhanced regional dialogue and a return to mutual compliance with the JCPOA would [...] allow for more regional partnerships and economic exchange.” On the same note and in a separate statement, the GCC officials discussed their efforts “to build effective diplomatic channels with Iran,” and affirmed that “deeper economic ties after the lifting of US sanctions under the JCPOA are in the mutual interest of the region.” Even though all GCC states had welcomed the agreement in 2015, these statements were a sea change in Saudi Arabia's and the UAE's position towards the agreement and towards Iran.

14. While Oman had been a key facilitator and mediator between Iran and the US up until 2016, Qatar has been more actively involved in facilitating dialogue between Tehran and Washington since 2017, see: Mehran Haghirian. [Why Qatar Wants to Facilitate a US-Iran Breakthrough](#). *Bourse & Bazaar Foundation*. February 17, 2021.

15. [Joint Statement on the Meeting of the E3 + United States with the Gulf Cooperation Council](#). *US Department of State*. November 18, 2021.  
[U.S. GCC Iran Working Group Statement](#). *U.S. Department of State*. November 17, 2021.  
 Mehran Haghirian. [GCC States Bet on Nuclear Deal as They Seek Better Relations with Iran](#). *Bourse & Bazaar Foundation*. December 6, 2021.

The building of diplomatic channels refers to the secret back-channel talks between Iran and Saudi Arabia, as well as Iran and the UAE, which gradually became public in 2021. Following Mohammed bin Salman's statement expressing his interest in dialogue, Saudi Arabia and Iran held several rounds of talks in Baghdad that included key officials from both countries. These talks are bound to yield some positive results, including the resumption of official diplomatic ties, as well as an end to the war in Yemen. In December, Saudi officials agreed to issue visas for three Iranian diplomats that represent the country at the Organization of Islamic Cooperation (OIC), which is based in the Saudi city of Jeddah.<sup>16</sup>

At the same time, the UAE adamantly began pursuing constructive engagements with Tehran. While conventional wisdom would have assumed the soaring of tensions between Tehran and Abu Dhabi after the UAE normalised relations with Israel as part of the Abraham Accords, the diplomatic engagements between the two countries have even increased since. The back-and-forth travels of senior officials from both countries have already yielded some positive results. Iranian and Emirati officials spoke twice by phone in less than a month and Iran's deputy foreign minister, Ali Bagheri Kani, travelled to the UAE on 24 November 2021 to "open a new chapter in bilateral relations."<sup>17</sup> These interactions led to a sudden visit to Tehran by Emirati national security advisor, Sheikh Tahnoun bin Zayed Al Nahyan, on 6 December 2021.<sup>18</sup>

According to one participant, there is "a lingering fear among Gulf states broadly that Iran unshackled could lead to an economic imbalance in the region" given the size of the Iranian market. If there is a return to the JCPOA, the GCC states want to be part of that discussion. It is unlikely that they will be able to build on the JCPOA or to have a direct say in a follow-on agreement, but the aim is to "position themselves in the negotiations to maximise their interests as much as possible," according to another participant. The GCC states do not have significant leverage over Iran given the current security dynamics, but "economic trade is an incentive that they can offer to Iran." Growth of the Iranian market, another participant said, "can positively impact GCC economies." Arab states "want to invest in Iran," she argued, recounting her discussions with Arab policymakers.

The GCC states are, in large part, happy with Ebrahim Raisi as Iran's president today. One of the main issues some GCC states had with the Hassan Rouhani administration was that "they were not able to deliver on promises" – GCC leaders preferred to speak with the Iranian deep state. Mohammad Javad Zarif, Iran's former foreign minister, made regional diplomacy a priority and repeatedly called for dialogue in various international venues. For example, the Rouhani administration proposed the Hormuz Peace Endeavor (HOPE) as an inclusive, multilateral, diplomatic initiative at the 2019 United Nations General Assembly.<sup>19</sup> This, along with other efforts, failed in large part because of the duality of Iran's foreign policy at the time. The GCC states were puzzled by the diplomatic niceties coming from the Rouhani administration from one side and the deep state's troubling actions across the region from the

16. Golnar Motevalli. [Iran-Saudi Talks Advance as Iranian Diplomats Receive Visas](#). *Bloomberg*. December 23, 2021.

17. [Iran and UAE agree to open new chapter in relations](#). *Reuters*. November 24, 2021.

18. [Iran, UAE pursue thaw in ties amid JCPOA talks](#). *Amwaj Media*. December 3, 2021.

19. Mehran Haghirian and Luciano Zaccara. [Making sense of HOPE: Can Iran's Hormuz Peace Endeavor succeed?](#) *Atlantic Council*. October 3, 2019.

other. They now view Raisi positively because they no longer have to contend with political dualism in Iran. As one workshop participant argued, “Today, the GCC leaders believe that, if Raisi makes a commitment or offer, he is more likely to follow through, whereas with Rouhani that was not the case.”

# External Competition for Influence in the Region

The November 2020 elections in the US pushed the GCC states to reassess how to position and present themselves as more constructive partners to the Biden administration. Soon after Trump's defeat "the Saudis found themselves in a position of weakness, and they wanted to broaden their network of friends," said one workshop participant. Thus, according to her, the outreach to Qatar was a necessary step to reinstate the traditional position of Saudi Arabia in the region in order to have a "Sunni-Arab network (and limited outreach to the Shi'a) and to enhance their position against Iran."

More importantly, the US's gradual withdrawal from the region has led to anxieties amongst the GCC states, who are concerned about the future balance of power in the region and the arrival of other foreign powers to their shores. As the US continues its 'pivot' away from the Middle East towards East Asia, the GCC states are being forced to find alternative security guarantors and guarantees in the absence of their primary, if not only, source of security. Russia, China, India and European countries all have deep interests in the region and in taking advantage of the US withdrawal. As US partners, and adversaries, have largely bandwagoned their policies towards the Gulf, they must now be prepared to assume a larger and more active role. At the same time, the GCC states, Iran and Iraq are faced with various choices for partnerships and strategic alignments following the end of the US hegemonic reign in the region.

While the West continues to be a model for development, neither the GCC states, nor Iran, like the lecturing or the insistence on liberalisation that tends to come with that development support. "They do not want to be pressed on media freedoms and human rights," noted one participant. Moreover, the challenge for Western executives is that, sometimes, they are less flexible because of the oversight by their legislatures and their cumbersome bureaucracies. On the other hand, the executive in China can act more decisively. China can tell everyone that they 'don't do alliances', they 'don't do military bases', or that they 'see security resulting from development', as articulated by one participant. These are compelling messages for the countries in the region, according to him. China is telling the GCC countries and Iran that they are not trying to change them, "just to become the most successful versions of themselves." As such, China is succeeding by avoiding the militarisation of relations and building trust through economic development.

But "China is not the only Asian game in town," stated another workshop participant. There is an "emerging, dynamic multilateralism in the region" with players like Japan, India, and South Korea. Regional players also have the opportunity to work with India or Japan, as well as others, "to counterbalance the Chinese-led Belt and Road Initiative." Nevertheless, China is very engaged, and that level of engagement "differentiates China from the US and makes cooperation with China more attractive." China is not interested in replacing the US in the region, nor does it have the resources to do so. By bringing people into their economic

networks, “China is acting as a driver of some regional integration” away from a hegemonistic approach, a participant noted. As such, “Western countries can’t play China’s game and beat it,” he said.

The involvement of more external players is further complicating the already complex Great Power competition in the region. The willingness of European and Asian powers to engage both Iran and the GCC states is entirely different compared to the US’s one-sided approach. China, Russia and some European countries, particularly France, expressed their interest in facilitating dialogue in the region. At the United Nations, Russia distributed a proposal on collective security in the area of the Persian Gulf to “exchange views on concrete options for the creation of collective security mechanisms in the Persian Gulf.”<sup>20</sup> For its part, China also presented a proposal for “Security and Stability in the Persian Gulf Region” and claimed during a meeting on the subject at the UN Security Council in October 2020 that, with a multilateral effort, the Persian Gulf region could become “an Oasis of Security.”<sup>21</sup> As a European power, France was instrumental in helping Iraq organise the Baghdad Conference in August 2021 and has been taking a more active role on matters related to the Persian Gulf region.

The relative international support for dialogue and the shared global interest in the stability of the Persian Gulf are helping set the stage for actual multilateral diplomacy between the countries surrounding the body of water. While the US has not been directly involved in facilitating such dialogues, its tacit support in the November 2021 statements illustrates Washington’s keenness for the de-escalation of tensions in the region.

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20. Annex I to the letter from the Permanent Representative of the Russian Federation to the United Nations addressed to the Secretary-General. *United Nations (A/73/971-S/2019/604)*. July 26, 2019.

21. Seyed Hossein Mousavian and Mehran Haghirian. [How Can the United Nations Facilitate Dialogue in the Persian Gulf after Biden's Inauguration?](#). *The Institute for Peace & Diplomacy*. November 17, 2020.



# Contours of a Regional Economic Integration Framework

The development of a regional economic integration framework will require the following steps:

- Identifying key areas for research to achieve greater awareness of shared economic interests
- Encouragement of economic diplomacy to build trust in shared incentives
- Investment in integration politics and projects with the overall objective of political stability and economic prosperity of the region

By piecing together information as to the status of the regional dimensions of trade, supply chains, fiscal policy, energy transition, financial-sector development, legal and regulatory standards and approaches to economic diplomacy, a research agenda should be developed to gain a fuller understanding of where untapped opportunities for regionalisation lie. The outcomes would equip policymakers with better information about shared economic interests and the benefits of integration, in addition to presenting viable pathways to regional economic diplomacy and integration.

There is often a fear that the interdependencies that come with economic integration might not always be for the benefit of all parties involved. Looking at integration in different regions and in the literature about interdependencies, one workshop participant raised the same concern. She said that interdependencies “sometimes bring peace and sometimes bring about a vulnerability to economic coercion.” However, if done right, she said, “it can significantly contribute to conflict resolution.” Doing it right requires the proposed infrastructural developments, for example, to be framed as a way to create resilience in the face of coercion. According to another participant, one potential “context-based framework” for enhancing regional economic integration and protecting it against coercion would consist of seeking to rebuild existing economic partnerships, identifying new potential partnerships between countries and across new sectors and selective engagement of external partners.

The regional economic integration framework can take into consideration a myriad of factors. Particularly, it could cover issues related to food and water security, health complications in the post-pandemic times, cooperating on regulations regarding migrant workers as well as migrant flows and trafficking, and digital infrastructure. Additionally, cooperation related to energy projects, such as the joint exploration of resources, joint establishment of energy infrastructures like pipelines and renewables and ways to deal with the heavy reliance on energy exports, forms other aspects of the framework.

Typical ways of thinking about integration tend to take a sectoral or industry-based approach. One alternative way of thinking about regional integration is a mechanism-based approach, such as sovereign wealth funds, co-investment programmes or economic zones. Moreover, “multi-party investment initiatives through regional banks or other multinational institutions” are alternative avenues to consider, as suggested by one participant. On the other hand, even projects related to the development and reconstruction of Iraq could serve as areas for cooperation between Iran and the GCC states. Iraq has often been either the facilitator or the subject of dialogues in the past few years and identifying Iraq’s economic interests is an important research topic to consider.

Region-wide infrastructure and logistics projects are important areas for integration. For example, China’s BRI project is an example of a set of region-wide infrastructure projects that create more interdependencies. The current competition in the region could easily be offset by focusing on complementarity through an integrated economic framework. Moreover, such region-wide projects could attract investments from countries like China, India, South Korea and others.

Up until now, energy has been “a source of problems rather than cooperation in the Gulf,” said one participant. Economic cooperation in the energy sector is vulnerable to the political situation, and most intra-GCC projects have failed because of political considerations, including the trans-Arabian Peninsula pipeline or the joined-up power grid plan across the GCC. Today, the global energy market is undergoing a major transformation because of the shale revolution, the impact of the COVID-19 pandemic, as well as energy transitions. Because of these transformations internationally, there now seem to be new opportunities for regional cooperation. In addition, according to one participant, “a window exists through OPEC for energy cooperation, such as joint exploration of resources, the joint establishment of energy infrastructures like pipelines and renewables and how to deal with the heavy reliance on energy.” Moreover, another participant suggested that the Eurasian Economic Union, the Economic Cooperation Organisation, and the Shanghai Cooperation Organisation all have specialised platforms that allow for some coordination among member states and serve as models for regional energy integration and cooperation.

Economic integration plans should also consider the importance of women’s issues and capitalise on the economic potential of women in a regional context. Some workshop participants agreed that there is more space now to discuss entrepreneurship and issues related to women, trade amongst women and building ties between women entrepreneurs. Another area that would be clearly beneficial is promoting youth entrepreneurship. Engaging young people on issues will be significant as there is a hunger in the region for involvement and engagement. “The youth constituents are savvy,” said another participant. While government officials might not necessarily solicit their proposals, they do “care about what they think,” according to her.

People-to-people exchanges are crucial to the region’s future and will help address an important gap – regional security cannot be achieved nor sustained without regional economic development. At the same time, the people in the countries of the region want to work together. “Business people do not have all the grudges that politicians do,” reminded

one participant, “or at least they can look beyond them in favour of economic benefits.” For example, one set of research on the impact of political tensions on economic relations between Saudi Arabia and Turkey found that the number of Saudi tourists visiting Turkey grew exponentially despite the existence of political tensions.<sup>22</sup> Moreover, the research showed that direct investment and equity capital levels fell in periods of heightened diplomatic tensions; however, the overall trade levels remained relatively stable. These findings help us think about the type of economic relations that can be formed and continue to exist amid regional conflict and tension, and that ordinary people and business people are not always in line with the political decisions of the state.

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22. Robert Mogielnicki. “The Political Veneer of Economic Exchange: Turkish Relations with Saudi Arabia and Egypt” in *Aspiring Powers, Regional Rivals: Turkey, Egypt, Saudi Arabia, and the New Middle East*, (Eds.) Gonul Tol and David Dumke. The Middle East Institute and the University of Central Florida (2019): 86-100.



# Conclusion

The GCC as an organisation was not established to serve as an integration hub. Rather, the purpose of the GCC has always been primarily focused on the security of its member states. Consequently, most of the past initiatives for integration failed, be it the GCC-wide single currency, airline or unified approach to tax policies. Moreover, because of the many similarities in their geographies, governance and economic infrastructures, the GCC states have fallen into a cycle of constant competition with one another that continues to intensify as geoeconomic issues increase. At the same time, the political tensions and conflicts between some GCC states and Iran have also side-lined economic diplomacy as a tool for conflict resolution. While finding solutions to the political and security issues in the region is the primary concern of all stakeholders, the mere focus on political and security-related discussions has shunned the myriad of other avenues for conflict resolution.

This report spells out the new geopolitical developments and foreign policy shifts in the Persian Gulf region that started manifesting in January 2021. By identifying the drivers behind the reinvigoration of diplomacy in the region, this report attempts to add a new dimension to the ongoing discussions on conflict resolution in the Persian Gulf through regionalised economic development. The discussions presented in this report affirm that regional economic integration could support regional diplomacy and has the potential to further increase the durability and effectiveness of diplomatic engagements. Still, this report only scratches the surface of the vast areas for research and policymaking. For example, while every region has its own political and economic peculiarities, the European, East Asian and South American models provide valuable guidance on finding best practices and avoiding initiatives that have a low probability of success. Additionally, more research on specific regional economic initiatives and mutually beneficial, multi-party projects allows for a clearer understanding and appreciation of regional economic integration. Furthermore, to form the contours of a regional economic integration framework, the discussion itself must be expanded to reflect its interdisciplinary nature.

As regional leaders look for a way out of the zero-sum competition that has increased tensions and led to conflict and humanitarian crises, the time is ripe for multilateral dialogue and cooperation. The developments of the past year, as well as the geopolitical and geoeconomic realities of the region, prove that the countries under consideration in this report are more inclined than ever before to engage in regional diplomacy, and particularly regional economic diplomacy. As one workshop participant noted, “it has been demonstrated that regional integration has helped regions in Europe, Southeast Asia, Africa and South America to enlarge markets and create resiliency.” Moreover, economic cooperation has always created stronger links as the basis of formal diplomatic processes, and, accordingly, trade integration has led to fewer conflicts. Economic diplomacy now seems to be at the core of the diplomatic interactions of all countries under consideration in this report and pursuing regional economic integration is more feasible and urgent than ever before.

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