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Policy Brief

Economic Integration as a Resilience Strategy for the GCC

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After over three decades of centering economic diversification in their development strategies, Gulf Cooperation Council (GCC) countries are increasingly shifting their policy focus towards building economic resilience against external shocks. Throughout the United States (US)-Israel war with Iran, Gulf states have found themselves exposed to the collateral consequences of a conflict that they neither sought to initiate nor become directly involved in.

With the absence of a negotiated settlement through diplomatic means and the trajectory of escalation remaining increasingly unpredictable, the situation has reinforced a growing recognition that persistent political instability and recurring conflict may represent the new normal in the Middle East. As a result, Gulf states must integrate adaptability into their economic diversification plans to ensure that their development-oriented approach remains durable to the political, economic, and security crises unfolding around them.

To understand the resilience of GCC states, it is useful to examine how they have responded to the ongoing conflict and its multifaceted effects across security, economy, energy, and other critical areas. These developments have provided a significant test of regional adaptability amid severe uncertainty and a range of interconnected risks. In response, these countries have demonstrated perseverance through their defense capabilities, extensive diplomatic outreach, and regional institutional coordination. Together, these capabilities have helped contain the wider effects of hostilities and maintain the continuity of essential services and economic activity, an outcome that has been praised across the region.

At the same time, the war has highlighted areas where GCC resilience needs to improve. As predominantly economic powerhouses, adversaries have primarily targeted economic activity in Gulf states. Disruptions to the Strait of Hormuz and Bab el-Mandeb have constrained exports, particularly energy supplies. Combined with attacks on critical infrastructure, including desalination plants and industrial facilities, these disruptions have further exacerbated the vulnerability of essential services, energy corridors, and logistics networks. These risks have posed a threat to the region's collective economic security.

Although the war's economic impact varied across GCC states, all were affected. In this context, the case for greater economic integration is increasingly relevant for the bloc. It can help states mitigate disruptions, strengthen supply chains, diversify economic dependencies, and collectively address the gaps revealed during the conflict.

BUILDING AN ECONOMICALLY RESILIENT GULF

Governments across the region are increasingly investing in infrastructure and domestic

capacity designed to mitigate the spillover effects of external instability. Saudi Arabia's East–West oil pipeline, for example, proved its strategic value during the war. The Kingdom is currently exploring various ways to expand the pipeline to allow more energy to be transported from the Eastern Province to ports on the Red Sea, reducing reliance on routes through the Strait of Hormuz. The United Arab Emirates (UAE) has also fast-tracked the construction of a second major pipeline, aiming to increase its ability to bypass the Strait. Additionally, Qatar has announced a $1.4 billion investment fund aimed at strengthening the country's economy.

After years of looking outward, Gulf states are, for now, placing greater focus on strengthening their domestic economies and critical infrastructure. This reflects a growing recognition among policymakers that economic diversification alone is insufficient if a single regional conflict can disrupt the critical infrastructure, energy flows, and trade networks on which their economies ultimately depend.

This new focus on resilience is of crucial importance for Gulf states. These countries are not simply trying to protect their economies from short-term disruption, they are also seeking to protect their long-term economic security and their important position in global markets. For example, when Gulf producers were unable to export energy at normal levels amid the war, other producers stepped in to fill part of the gap. Over the same period, non-Gulf liquified natural gas (LNG) production increased by around 27 billion cubic metres (bcm). This demonstrates the risk that prolonged disruptions could allow competing producers to capture part of the GCC's market share. This is a particularly significant concern as the global energy transition is expected to increase competition among energy exporters over the long term.

Further, attacks on desalination, ports, and logistics infrastructure threaten water security, disrupt trade, and raise insurance costs. This undermines investor confidence and exposes a strategic vulnerability that adversaries, including Iran, could exploit.

While Gulf states can strengthen resilience unilaterally, their capacity varies according to resources, infrastructure, and geography. Thus, collective GCC resilience cannot be achieved through national policies alone; it requires a regional multilateral approach.

ECONOMIC INTEGRATION AS A PATHWAY

Economic integration among GCC member states has historically been a major pillar of the Secretariat's policy. Initiatives such as the Free Trade Area, established in 1983; the GCC Customs Union, which unified the customs territory in 2003; and the Gulf Common Market have been major successes and have benefited all six member states.

However, more ambitious approaches to integration have failed to materialize, such as a monetary union with a single currency, envisioned as a "Gulf Euro" targeted for 2010. Plans for

a GCC central bank intended to create a single monetary authority in the region to support the common currency were also not realized. The GCC Railway, designed to physically integrate the six economies through a cross-border rail network, has also faced repeated delays.

The difference between earlier plans and the current landscape is that the regional economic environment has been fundamentally altered by conflict. At the time, regional economies were not exposed to threats to the extent that they face today. Therefore, building practical mechanisms for economic resilience provides a renewed justification for integration and an opportunity to redefine it around the protection of economic security.

In the current environment, efforts should focus on connecting critical infrastructure and developing routes that reduce dependence on national systems and maritime chokepoints. Ensuring the continuity of energy exports is particularly critical.

First, in terms of alternative mechanisms to bypass the Strait, Kuwait has previously considered pipelines through Saudi Arabia, although these plans were never implemented. While Qatar is already connected to the UAE through the Dolphin Gas Pipeline, which supplies gas for domestic UAE energy demand, proposals have suggested using similar infrastructure to expand on its model regionally. Developing sufficient LNG processing capacity would allow Qatar to export through ports that bypass the Strait. These options show that alternative pipeline routes depend on buy-in from other GCC states, as their viability requires access to neighboring infrastructure, territory, and export facilities.

Second, by connecting critical infrastructure, especially water and energy systems that were repeatedly targeted, economic integration can be deepened while strengthening regional resilience. One option is to revive the proposed GCC water interconnection network, an initiative which has been long discussed but never implemented. The project proposed connecting desalination and water transmission infrastructure across member states, allowing water to be transferred during emergencies or shortages. The conflict has made such a system increasingly relevant. Beyond direct attacks, however, contamination of Gulf waters – including from potential damage to nuclear facilities in Iran – could disrupt water production. Since desalinated water is critical to both human consumption and economic activity, greater interconnection could provide an additional layer of protection by enhancing support between member states when national water systems are disrupted.

Third, greater integration of regional logistics networks could strengthen resilience by providing alternative supply routes when normal trade corridors are disrupted. Recent developments demonstrated the value of existing overland connections between Gulf states. Bahrain, for example, increased its reliance on its land connection with Saudi Arabia to address disruptions to its imports. Oman's ports of Sohar, Duqm, and

Salalah became alternative gateways for goods destined for the UAE. These arrangements provide a practical foundation for deeper transport integration, demonstrating how overland routes that proved valuable during the crisis could be expanded into permanent regional logistics networks. The GCC Railway offers an opportunity to institutionalize the overland logistics cooperation in response to the war. The project is currently around halfway complete, with full operation targeted for 2030. Saudi Arabia is also pursuing wider rail connectivity with Türkiye that could potentially connect Gulf supply chains to the Levant and Istanbul.

Together, these measures illustrate how deeper transport integration can turn national logistics networks into a more flexible regional system, providing the Gulf with additional routes for maintaining the flow of essential goods during future disruptions.

CHALLENGES TO INTEGRATION & THE ROLE OF THE GCC SECRETARIAT

As with any regional intergovernmental organization, achieving greater cooperation requires a high degree of political consensus. GCC states are close partners, but differences in national priorities, economic competition, and foreign policy have historically complicated plans for stronger integration. With the current conflict straining existing security arrangements, Gulf states should shift their national economic policies toward a more coordinated regional approach.

Several factors make such integration challenging. GCC countries are significant economic powers and major exporters in their own right, meaning that integration in key sectors may require governments to relinquish some economic autonomy over industries central to national revenue and development. For example, if a pipeline between Kuwait and Saudi Arabia is constructed, a major portion of Kuwaiti oil exports could flow through Saudi territory, increasing its economic dependence on Riyadh.

Economic rivalry presents a further challenge, as national diversification policies usually overlap, with member states competing to establish themselves as regional centers for tourism, logistics, and finance. This would decrease the incentive for closer regional cooperation. These differences are unlikely to disappear, nor is their elimination necessary for greater economic interdependence to be achieved. However, integration that directly benefits all six states makes a much stronger case to regional governments.

The ongoing conflict demonstrates that existing economic connections could help cushion individual states from disruption while also exposing vulnerabilities that cannot merely be addressed at the national level. As GCC Secretary-General Jasem Albudaiwi stated, “Gulf economic integration is a fundamental pillar for safeguarding develop-

mental gains and addressing challenges amidst exceptional regional circumstances."

The GCC Secretariat is of utmost importance in translating this renewed recognition of economic interdependence into practical cooperation. Overcoming differences among Gulf states to achieve this will require a more institutionalized approach, with the Secretariat playing a central role in coordinating initiatives, sustaining political commitment, and ensuring their implementation. Such an approach could help reinforce the understanding that the economic security of each member state is closely tied to that of the wider region and that solidified integration serves their collective interests. The conflict may already have strengthened this recognition, but the near future will reveal whether it can be translated into lasting institutional and economic interconnection. The Gulf's new era of resilience begins with turning this shared understanding into action.

About the Author



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