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The Malfunctioning of the Gulf Cooperation Council Single Market: Features, Causes and Remedies[1]

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Abstract

Five years after its inception, the Gulf Cooperation Council (GCC) single market is malfunctioning in a litany of ways: there remain restrictions on the movement of goods, capital and labor across political boundaries. This paper describes the GCC single market's malfunctions. We also propose remedies, taking advantage of the single market experiences of, among others, the European Union. A key conclusion is that there is an absence of GCC supranational political institutions powerful enough to enforce rules, with the exception of the Supreme Council, which is itself not designed to deal with day-to-day issues such as enforcing a single market. Consequently, the GCC needs to alter its institutional structure if it wants the single market to operate correctly.

Keywords: Single market, Economic integration, Gulf Cooperation Council
JEL Classification Codes: F15, F2, F36, F53, F6.

1. Introduction

Five years after its inception, the Gulf Cooperation Council (GCC) single market is malfunctioning in a litany of ways: there remain restrictions on the movement of goods, capital and labor across political boundaries. These microeconomic restrictions are reflected in some of the aggregate data, such as the low numbers of GCC citizens working in other GCC countries or the fact that intra-GCC trade equals only 6% of GCC GDP (Gulf Cooperation Council Secretariat General, 2012). In contrast, for example,

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five years after the launch of the European Union's (EU) single market, rigorous econometric studies demonstrating its considerable economic benefits were already being circulated (Allen, Gasiorek, & Smith, 1998; Bottasso & Sembenelli, 2001).

The fundamental cause of the GCC single market's malfunction is the fact that the GCC's institutions are ill-equipped for the task of enforcing a single market. Failing to comply with single market rules, such as a refusal by a GCC member government to employ a GCC citizen from another country due to her nationality, ultimately needs to be addressed by a supranational body that is charged with pursuing the GCC's holistic interests. In the case of the GCC, the only supranational institution with significant power is the Supreme Council, but it is not designed for a time- and resource-intensive task such as monitoring and enforcing the numerous rules associated with a single market. In contrast the GCC institution most appropriate for the latter task—the GCC Secretariat General—functions as a support and consultative body and lacks the power to enforce rules.

In this paper, we describe some of the most prominent malfunctions of the GCC's single market, as well as exploring the current institutional configuration's role in explaining the malfunctions. We go on to describe how the EU's institutional setup, especially the European Commission, allows it to effectively enforce a broad range of issues including a single market. Finally, we make recommendations for the GCC based on the EU's successful experience.

The academic literature on GCC economic integration is relatively small, with most recent contributions focusing on the single currency (Darrat & Al-Shamsi, 2005; Buiter, 2008; Benbouziane & Benamar, 2010; De Grauwe, 2010; Kandil & Trabelsi, 2012; Nierop & Lippe-Holst, 2012). To the best of our knowledge, this is the first paper to describe the problems faced by the GCC single market, to explain them by appealing to the GCC's institutional structure, and to tailor recommendations based on the experience of the EU.

2. Background on the GCC Single Market

2.1. Single Markets in Theory

In principle, a single market functions perfectly when the only obstacle to the flow of goods, services and production factors across geographical borders is the physical transport cost (Baldwin & Venables, 1995). The street you live in is virtually a perfect single market: if you want to consume your sandwich 20 yards down the road, the only impediment is the cost associated with you physically moving 20 yards down the road. There are no papers to sign, no inspections and no fees.

At the level of an entire economy, there are no perfect single markets. Ultimately this is due to the existence of political units which retain some degree of autonomy from the central government, such as state governments, municipalities and even mayors' offices. Thus it makes more sense to think of a single market as a continuous concept. To spare the reader the awkwardness of a term such as "single marketedness," we opt for the more nimble "integration," i.e., one gauges the extent of an economy's integration.

The economic case for integrating markets is essentially as old as the discipline itself, dating back to Adam Smith (for a rigorous and thorough treatment, see Baldwin and Venables, 1995). Firms operating in a market face two primary changes: an increase in the size of the market, and an increase in the competition *for* the market. Together, these changes are expected to result in the following. First, decreasing profit margins due to the elevated competition; second, falling costs as firms exploit economies of scale due to the expanding market; and third, increased innovation, also as a response to the sharper competition. Despite the fact that certain economic actors will lose out, economic integration is still considered desirable in terms of aggregate economic efficiency, i.e., in theory, the winners can compensate the losers and still themselves be better off.

Realizing the benefits of a single market depends upon goods and factors of production moving across political boundaries to their most efficient uses. Thus the ideal circumstances are countries that are culturally homogenous and economically heterogeneous. Cultural homogeneity facilitates the flow of resources, especially manpower; people do not like to move to countries with different cultures to their own, and they especially dislike having to learn a new language (Belot & Ederveen, 2012). On the other hand, economic heterogeneity maximizes the potential for gains from trade arising from comparative advantage, heterogeneous preferences, knowledge spillovers, insurance against the business cycle and so on (Eaton & Kortum, 2002). Admittedly, this needs to be qualified by the fact that one of the key benefits of integration, which is expanding scope for economies of scales, does not depend upon economic heterogeneity and may even be diminished as a result of it. However the economic case for trade is fundamentally associated with economic heterogeneity.

In practice, cultural and economic homogeneity tend to go hand in hand, and thus a portmanteau concept of homogeneity ends up being a double-edged sword for single markets: countries that are more homogenous make it easier for goods and factors of production to flow across the border, but there's little need for them to do so since the economies are so similar; in contrast, in countries that are less homogenous, it is efficient for goods and factors of production to cross borders but cultural barriers hamstring the flows.

Whether the net effect of portmanteau homogeneity is positive or negative is anyone's guess (assuming that the sign is even stable in the first place). The implication is that it becomes harder to diagnose the reason for low intra-single-market resource flows: is the single market malfunctioning (i.e., do there remain barriers), or is there simply not much reason for the resources to flow due to the economic homogeneity, regardless of the freedoms afforded by the single market? In contrast, healthy resource flows can be safely interpreted as favorable evidence of the single market's correct functioning.

2.2. The GCC Single Market

The members of the GCC have been integrating economically since the 1980s (see Genc and Termos (2011) for a discussion and econometric analysis of GCC economic convergence). Explicit plans for a single market appeared in 2001, and came into effect from the start of 2008. These included an agreement to establish a customs union in 2003. The economic definition of a single market was operationalized by dividing economic activities into ten domains and then requiring each of the six member states to treat all GCC citizens equally in those ten domains (Al-Kila'i, Al-Hajiri, & Al-Hajiri, 2009). The domains are:

1. Travel and residency.
2. Employment in government and private sectors.
3. Pensions and social insurance.
4. The pursuit of professions and trades.
5. Engagement in all economic activities, investments and services.
6. Real estate ownership.
7. Movement of capital.
8. Taxation.
9. Trading shares and establishing companies.
10. Education, health and social services.

The chief legislative arm of the GCC is the Supreme Council, which is composed of the GCC heads of state (see below for a longer discussion of the GCC's structure). The laws pertaining to the single market were passed in a series of summits over the first decade of the 21st century.

If implemented to the letter, the GCC single market arguably goes beyond its EU analogue in terms of the degree of integration. It is worth noting that the GCC states are also highly homogenous. Linguistic and cultural homogeneity is the result of a shared, tribal ancestry, while economic similarities are enhanced by the centrality of oil and natural gas to the individual economies (Buiter, 2008; Lorimer, 1908).

The 2011 aggregate economic data (Gulf Cooperation Council Secretariat General, 2012) definitely provide some positive signs about the extent of GCC economic integration in all ten domains:

- 13,000,000 GCC citizens travelled within the GCC.
- 17,000 GCC citizens worked in the government sector in another GCC country, while 24,000 did so in the private sector.
- 9,000 GCC citizens were enrolled in retirement pensions in other member states and 6,000 were included in social security.
- 17,000 GCC citizens received public primary education in other member states, while 6,000 received public higher education.
- 16,000 GCC citizens owned real estate in another GCC country.
- 35,000 licenses for economic activity were granted to GCC citizens outside their home country.
- 26 GCC banks operated in another GCC country.
- 456,000 GCC citizens owned shares in joint stock companies listed in another GCC country.
- Intra-GCC trade was $85 billion.

However these data conceal the fact that integration remains spotty in many areas and absent in others. The same data source reveals that in 2011:

- 23 non-Saudi GCC citizens worked in the Saudi Government.
- 32 non-Omani GCC citizens worked in the Omani private sector.
- 18 non-Saudi GCC citizens were enrolled in Saudi retirement plans.
- Two Omani citizens owned real estate in Qatar, compared to 966 in the UAE.
- One non-Qatari GCC bank operated in Qatar.
- Three loans were given by the Kuwaiti government to non-Kuwaiti GCC industrial projects.

In contrast to the preceding set, these figures paint a much bleaker picture of integration and suggest that something is fundamentally amiss. (Our goal is not to highlight any particular offenders—we merely wanted to draw attention to some of the more dramatic instances of poor integration. There exists plenty of evidence that all six member states are dragging their feet in various domains.)

Taken alone, however, the figures remain suggestive due to the homogeneity issue raised above: perhaps the Saudi opportunities open to a non-Saudi GCC citizen are so similar to those back home that one might as well just stay put, and that the reason is nothing to do with a breakdown of the single market. As such, any aggregate evidence of malfunctioning needs to be complemented by more direct indicators. We now turn to a fuller account of the single market's malfunctioning.

3. Features of the GCC Single Market's Malfunctioning

When assessing the GCC's market integration, a report by the Federation of GCC Chambers (2012) is an incredibly useful source of information. Much of what follows is taken directly from the report, in addition to discussions with the report's authors and other members of the GCC business community. To avoid a shopping list that regurgitates much of what is contained in the report, we restrict ourselves to highlights and general themes, redirecting the reader interested in the details to the original report.

It turns out that the GCC single market performs below expectation in terms of market integration, especially if one compares it to more mature cousins such as the EU or the US.

3.1. Customs and Immigration

A particularly glaring breakdown comes in the form of a malfunctioning customs union (free trade area with a common external tariff): in the chain of economic integration, customs unions precede single markets. Two of the member countries (Bahrain, Oman) have bilateral free trade agreement with the US. Moreover goods trying to cross the borders of member states frequently face restrictions.

For example, the private sector reports that goods that have already entered the GCC are searched and trucks have to be unloaded at borders. A variety of fees functioning as pseudo-tariffs are imposed on foreign GCC goods entering a country. Health and safety inspections at the border are imposed in a discriminatory fashion whereby citizens of the receiving country receive favorable treatment as compared to citizens of the other GCC states. In contrast in the EU, for a wide range of goods, once they enter the union at any one of the ports, the goods are assigned the relevant paperwork and declared “free” to roam throughout the rest of the union.

Part of the GCC custom union’s malfunctioning is down to continued wrangling over the system for distributing customs revenue (Dokoupil, 2012). Negotiations are ongoing and there definitely exists a will among the upper echelons of government to rehabilitate the customs union, but for now it is definitely not functioning in the intended manner.

The travel statistics correctly reflect the ease with which GCC citizens can cross GCC borders. However travel is trickier for non-GCC citizens in a way that disrupts the realization of the benefits associated with single markets. There is no pan-GCC tourist visa (a problem familiar to tourists traveling to the EU, though the Schengen system does a decent job of facilitating travel; obviously the problem does not exist in the US). Moreover non-GCC citizens legally working and residing in the GCC complain of excessive red tape when traveling throughout the Gulf, often manifesting as delayed and non-issuance of visas. Since much of this travel is work-related, there can be little doubt that GCC economic integration is impaired by these kinds of breakdowns.

3.2. Factors of Production

In practice, GCC workers, entrepreneurs and capital trying to relocate to another GCC state face barriers well beyond physical transportation costs. It is not uncommon to see job postings—government and private sector—expressing an explicit preference, if not outright insistence, for applicants to bear the same nationality as the employer. The discrimination in favor of nationals and against citizens of other GCC states extends to granting work licenses for various trades and professions, as well as denying those who do get employed access to the social security and pension schemes that a national would expect. More subtle is the difficulty of getting one’s secondary school qualifications recognized in other GCC states due to the lack of an open standardization system.

Taking one’s entrepreneurial skills to a GCC state different to one’s own can be a frustrating process, especially in banking, insurance and road transportation. Acquiring business licenses can be difficult and on occasion impossible. It may depend on having a partner who is a national of the hosting state, with the partner possibly requiring at least 51% of the capital. It is more difficult to qualify for loans and subsidies. Once a venture is up and running, the owner may face taxes associated with non-GCC citizens rather than the zero taxes imposed on nationals.

Beyond this, GCC investors are not always afforded the opportunity to purchase shares in companies listed in other states or to participate in initial public offerings. At a more rudimentary level, they sometimes face hurdles when trying to open a bank account.

While cross-GCC land ownership definitely exists, with the UAE (Dubai specifically) being very open to investment from the remainder of the GCC, arbitrary refusals of permission to purchase land occur.

3.3. Summary

In light of the experiences described by the Federation of GCC Chambers (2012) and surveyed by us above, and in conjunction with the data we provided that suggests poor integration, there can be little doubt that the GCC single market is malfunctioning. This raises the question of "why."

4. Causes of the GCC Single Market's Malfunctioning

The biggest class of malfunction is simply a failure to implement an agreed upon piece of legislation. For example the Supreme Council decreed that all GCC citizens should be allowed to purchase property in all GCC states. The fact that according to official data, in 2011, two Omanis owned real estate in Qatar suggests that this decree is yet to be (comprehensively) implemented (Gulf Cooperation Council Secretariat General, 2012). We know that it's not because Omanis cannot speak the same language or that they are unfamiliar with the local customs (that might explain why, hypothetically, a Spaniard might be reluctant to purchase Finnish real estate). To better understand the reasons, we first need to familiarize ourselves with the GCC's structure (Gulf Cooperation Council Secretariat General, 2013).

4.1. The Structure of the GCC

Figure 1 gives an overview of the GCC's structure, and is adapted from Alasfoor (2007). There are five main bodies complemented by a variety of committees, some of which are permanent and some of which are temporary or are convened when necessary. Of the five main bodies, the three most important for issues of legislation and/or implementation are the Supreme Council, the Ministerial Council and the Secretariat General (SG).

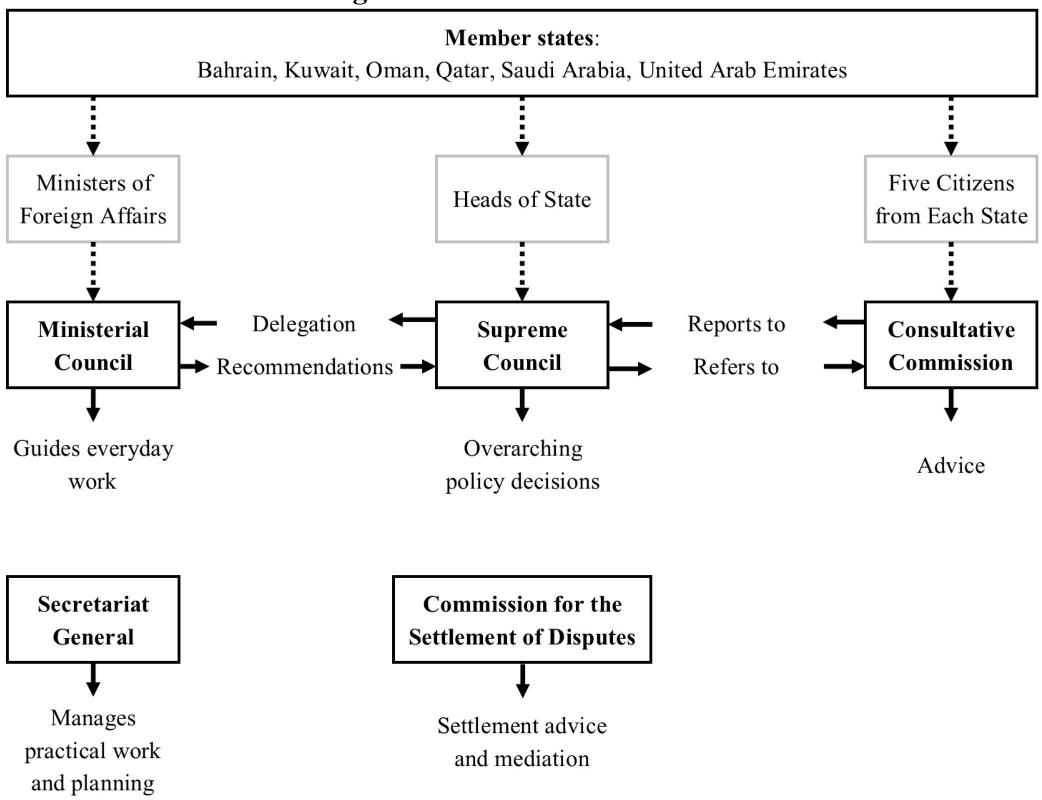
The Supreme Council is the GCC's highest authority, being composed of the heads of state. Its primary responsibilities include drafting the organization's overall policy, as well as discussing and endorsing proposed laws. The source of proposed laws is either the Ministerial Council or the SG. The Supreme Council itself only has annual meetings scheduled regularly, though it does convene at higher frequencies when necessary. Important decisions require unanimity, while more procedural ones require only a majority.

The Ministerial Council is composed of the member states' Foreign Ministers. It meets more frequently than the Supreme Council (quarterly) and is therefore charged with producing more detailed policy proposals. It also prepares the Supreme Council's agenda. Notably, it does not take decisions—it merely makes recommendations.

The SG is in charge of day-to-day GCC operations. It follows up on Supreme Council decisions, it prepares advisory studies, arranges meetings and finalizes agendas. It has a staff of approximately 500 people, and they are distributed among the body's divisions, each of which covers a key policy area. Like the Ministerial Council, it has minimal executive authority, functioning primarily as an advisory and support vehicle for the Supreme Council.

For the purposes of our study, the GCC's most important features are as follows. First, power is highly concentrated in the Supreme Council, a body that meets infrequently and that requires unanimity for important decisions. The Supreme Council is not independent of the member states and is not designed to serve the holistic interests of the GCC in the event that they diverge from the interests of a member country.

Figure 1: The Structure of the GCC



Second, there exists no body that is independent of the member states that commands substantial power or resources. The SG does exist to serve the GCC's holistic interests, with its chief being appointed by the Supreme Council, but it lacks executive clout.

Neither of these features is particularly surprising in light of the fact that the GCC was originally conceived as a security and defense vehicle and it has only existed for around 30 years. In the domain of economic policy, the GCC is much closer to being an intergovernmental forum than a union, though certainly its role has evolved. In contrast, for example, the EU (or any one of its progenitors) has existed for over 60 years and was an economic project from the outset.

4.2. Institutional Lacunae

Establishing a single market is a massive undertaking. It requires coordination and harmonization across dozens (if not hundreds) of ministries, directorates, councils etc. Virtually every aspect of economic and hence daily life is affected unlike, say, coordinating maritime defense—a project that affects a narrow branch of the military sphere, itself a sphere with limited impact on the day-to-day lives of GCC citizens. Accordingly the thorough implementation of a single market, which is a process that goes well beyond the passing of official decrees declaring its establishment, requires substantial financial and human resources, and it requires institutions with considerable executive power.

As we will see below when we discuss other more successfully implemented single markets, there are multiple institutional configurations that can deliver the desired results. However the GCC's implementation struggles suggest that its current institutional setup is insufficient. The key problem is that none of the GCC institutions command the necessary financial or human resources, and the ones that do have substantial resources lack the power to ensure compliance.

Going back a few steps, once the Supreme Council decrees, for example, that any GCC citizen should be able to open a business in any GCC country, loosely speaking, one of three things can happen. First, compliance. Second, non-compliance due to ignorance or slowness of the relevant authorities, independently of the threat of any sanctions. Third, willful non-compliance resulting from the perception that non-compliance sanctions are either too weak or too unlikely to outweigh the benefits of failing to comply with the rule.

Ensuring compliance is primarily the responsibility of the individual sovereign governments. Thus, upon the issuance of the decree, each GCC government is supposed to inform its Ministry of Commerce that business licenses should now be granted to all GCC citizens and should monitor the Ministry's implementation. Thus, for example, should a Qatari citizen find that the Kuwaiti Ministry of Commerce is refusing to grant her a business license because she is a non-Kuwaiti, there is no GCC institution to which she can take her grievance. If she calls the SG, she will be informed that her complaint needs to go to either the Kuwaiti government or the Qatari government. The SG has no choice but to recommend this course of action since it has no power to act otherwise. (It would be inappropriate and wasteful to bring a small case like this to the attention of the Supreme Council since the latter is preoccupied with macroscopic GCC affairs.)

The buck therefore stops with each GCC government. Should the government willfully or otherwise fail to ensure compliance, then the systematic avenues have been more or less exhausted. Discretionary dealings between GCC governments may help resolve enforcement conflicts, but this is unlikely to be an effective manner for ensuring compliance in the thousands of domains where conflicts may arise. Ultimately, this explains the GCC single market's current predicament. We now turn our attention to the potential remedies.

5. Rehabilitating the GCC Single Market

As remarked above, in theory, there are multiple institutional configurations that can deliver a smoothly functioning single market. In practice, the GCC's experience suggests that its current configuration is ill-suited for this end. Thus a logical departure point for recommendations is the experience of economic associations that have successfully introduced a single market.

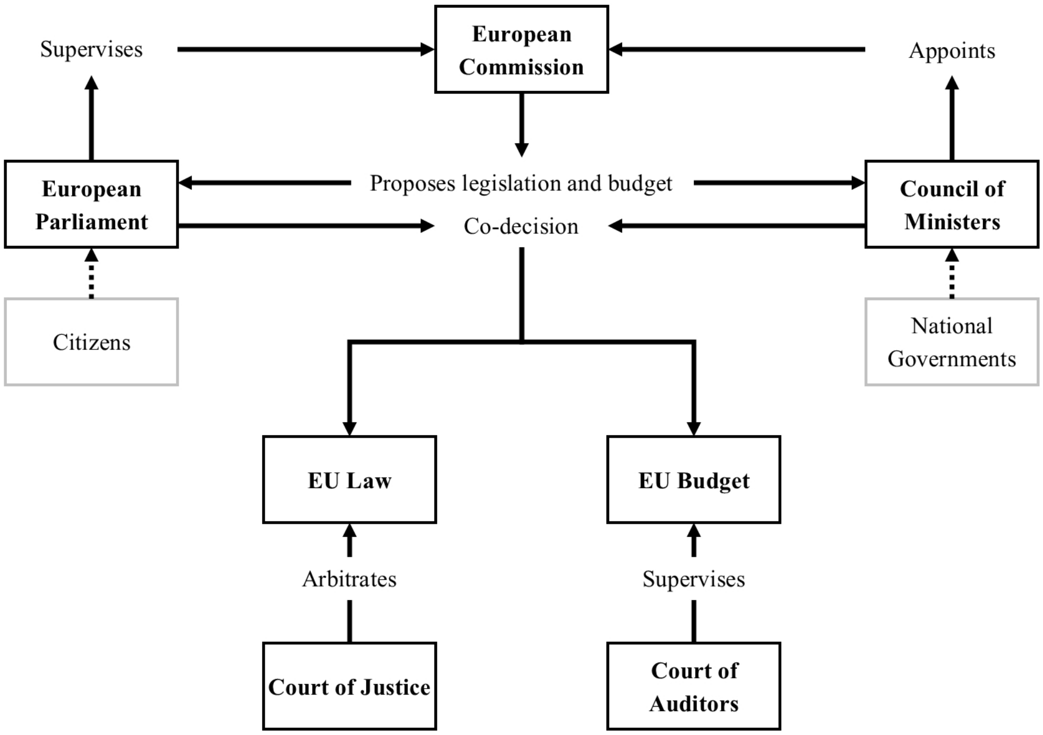
A common feature of all successfully operating single markets is stronger central institutions (compared to the GCC). One can imagine a spectrum with weak central institutions on one end and strong ones on the other. The GCC occupies the weak end, and moving towards the stronger side, one encounters the EU first, followed by federal systems such as Australia and the US, before reaching non-federated nation states such as any individual GCC country. The closer one is to the GCC side, the greater the cooperation necessary between centralized institutions and national institutions in order to ensure compliance.

At this point, replicating the institutions associated with federal or non-federated nation states is not viable for the GCC as it requires too much institutional upheaval. The EU example is the most salient feasible alternative and will be the focus of our recommendations. Nevertheless we briefly touch upon the example offered by federal systems both to provide a theoretical benchmark and, more importantly, because there is genuine discussion of GCC federation (Al-Shaei & Alsuhimee, 2012).

5.1. National-Supranational Partnership: The EU Model

Figure 2 (European Union Government, 2013) gives an overview of the EU's politico-institutional structure. Its relative complexity compared to the GCC can be explained by appealing to the longer history of European cooperation (initiated in 1952) and the fact that the EU is composed of 27 countries and over 500 million people.

Figure 2: The Structure of the EU



For those interested in a deeper understanding of the institutions, we suggest European Union (2013); we here restrict our attention to the parts most relevant to the present discussion, namely the European Commission (EC). The EC exhibits a certain degree of commonality with the GCC SG, but the differences are striking and critical to the EU's successful implementation of the single market.

First, unlike the SG, the EC is primarily an executive body rather than a consultative or supportive one. Second, the EU constitution charges the EC with representing the holistic interests of the EU, implicitly operating behind a European Rawlsian veil; in contrast, the GCC Supreme Council is a collection of six individual states' interests and there is ample opportunity for individual states to exercise a veto. Finally, the EU constitution also requires the EC to follow-up on the implementation of EU treaties and provides it with the necessary powers to do so, including the capacity to legally punish violators under the supervision of the European Court of Justice.

To illustrate these differences, consider that the EC employs over 33,000 people (European Union Government, 2013). If the GCC SG was to attempt to maintain a similar ratio of employees to citizens, it would have to employ six times as many people (whether or not this is desirable is a separate issue; the EC has its own problems which we briefly explore below). Naturally, some of the EC's sizeable workforce exists purely as a consequence of the cultural and linguistic heterogeneity that characterizes the EU and would therefore be redundant in the GCC. But that only explains some of the discrepancy; the rest is because of the EC's mandate.

Tracing the steps involved in passing and enforcing an EU law helps demonstrate the EC in action. After coordinating with the European Council, the EC presents a draft law. The draft law then proceeds to the European Council (which represents the states) and the European Parliament (which represents the people). Notably, the EU can make laws on anything, though states do have veto power on certain issues such as taxation, social security, foreign affairs and defense. The European Council and the European Parliament amend draft laws according to their own interests. Once an amended draft law has been agreed on, it is immediately implemented and all EU states must apply it.

The EC is the main institution responsible for making sure that EU law is applied throughout the member states. This is highlighted in Article 17 of the TFEU (Treaty on the Functioning of the European Union), which states that the EC shall ensure the application of the Treaties and of the measures adopted by the institutions pursuant to them. Generally speaking this means keeping track of measures taken by the authorities in the member states to implement EU law into their national law. Breaches of EU law alleged in complaints or discovered by the EC require it to take action, especially when national authorities fail to notify the EC by the required deadline. If the law is still not applied the Court of Justice is asked to intervene in advance of fining the non-compliant state.

Following the guidelines set out in Articles 258 and 260 of the TFEU, the EC has full discretion in deciding whether or not to bring enforcement action. The work of enforcement is spread out among different parts of the EC. The Secretariat General of the EC plays the role of the coordinator and formal postman for the infringement letters that are agreed by the Commission College. Infringement steps require formal approval of the EC's legal service before it can be formally proposed for decision by the EC. The work of checking whether legislation has been adopted, fully implemented and correctly applied falls to the individual EC services. For example in environmental cases, this is the responsibility of the Environment Directorate General.

While general rules applicable to the registration and the handling of complaints are harmonized across the entire Commission, individual Directorate Generals have their own specific approaches tailored to their own areas of competence. This difference in approach can be explained by the fact that some Directorate Generals have substantial caseloads and complaint numbers compared to others.

The European Parliament also plays a role in the implementation process. Members of the public have a right to petition the Parliament's Petitions Committee under Article 227 of the TFEU. Some complainants make use both of the Commissions complaint procedure and their right to petition to the Parliament. Generally speaking, the European Parliament does not have the resources to carry out its own investigations and after initial assessment of admissibility, will refer the petition to the EC for investigation. The EC then investigates the question with the member state against which allegations of bad practice have been made and reports back to the Petitions Committee with its findings. The Petitions Committee generally takes a more political approach to its assessment of petitions. It also has the power to carry out site visits, which in some cases can achieve results that would not be feasible for the Commission through its more formal infringement powers. Questions about the application of community law in individual cases also come to the Commission through written and oral questions from the European Parliament.

When a member state fails to comply with a judgment from the Court of Justice, it is the EC's job to restart the next round of infringement procedures under article 260 TFEU (Grohs, 2012). The EC issues a pre260 letter to the member state after a successful or partially successful action, asking what measures have been taken by the state to comply with the law. If compliance by the state has still not been assured, the case then proceeds to the Letter of Formal Notice stage giving the state two months to reply. If the State still fails to comply, the EC can apply directly to the Court of Justice. The EC's proposal to the Court of Justice must be accompanied by a proposal for fines for the state.

Article 260(2) implies that the Commission can either ask for a lump sum or daily penalties according to various predetermined guidelines. Factors that could be taken into account in environmental cases, for example, includes whether the offense concerns the whole state territory, whether the member state has been cooperative in trying to resolve the offense, whether the offense was a one-off or part of a series and last whether the member state has unfairly achieved financial advantage from the breach.

Consider the case Commission V Greece C-387/97 regarding the illegal Kourroupitos landfill in Greece, for which the Court of Justice gave judgment in 2000 (Grohs, 2012). The case arose due to an alleged failure to apply the Waste Framework Directive and Hazardous Waste Directive, which concern the closure and cleanup of illegal landfills. The EC requested a daily penalty of 24,600 ECUs (the Euro's predecessor). The Court of Justice awarded a 20,000 ECU fine.

Commission V Spain C-278/01 was concerned with the Bathing Waters Directive and Spain's failure to ensure compliance with the directive in its inland bathing waters. Only 54% of Spain's 302 internal bathing waters were compliant the Directive. The EC asked for daily penalties to be applied.

The Court of Justice however rejected the proposal, preferring instead to set an annual penalty based on the results of the annual bathing water report.

The above process' key features are as follows. First, central European institutions, most notably the EC, have the legal capacity to monitor and enforce compliance in theory, and they also possess the requisite human and financial resources to achieve that goal in practice. In fact there is a sophisticated system in place describing the process, guaranteeing the legitimacy of any actions. Member states that fail to comply—willfully or otherwise—risk sanctions.

Second, the central institutions do not directly hold offenders accountable; they operate under the assumption that each member state is supposed to ensure compliance and that any state that fails in this endeavor will be the target of the EC's ire, not the non-compliant firm or individual. Thus we characterize the EU's compliance procedure as being based on *partnership* between the supranational authorities (in this case primarily the EC) and the national ones, albeit a partnership with some explicit subservience.

5.2. Supranational Primacy: The US Model

The EU's budget is around 1% of EU GDP (European Union Government, 2013). This is a sizeable figure, but it remains quite small compared to the budget of a typical Western country, since these days most of them are running budget *deficits* that exceed 1% of GDP. Thus while the central EU apparatus exhibits much greater relative power than that of the GCC, it remains a long way from the degree of centralization associated with a federal or non-federated nation state. In the long term, the GCC has the option of leapfrogging the EU model and emulating a US-type model for enforcing a single market, which we would classify as supranational primacy (see Buiter (2008) for more on supranational institutions in the context of a GCC single currency). While we will not delve into the details, we here provide a quick overview of how such a system operates.

US federal spending is over 20% of GDP and the federal government employs a little under 1% of the US population (Office of Management and Budget, 2013). This concentration of resources allows the federal government to dispense with the need to cooperate with state or local governments in the enforcement of its laws, in contrast to the EC, hence the expression "supranational primacy."[2]

For example the Environmental Protection Agency (EPA) is a federal institution charged explicitly with the enforcement of federal environmental laws (United States Environmental Protection Agency, 2013). It is allowed to initiate criminal and civil proceedings directly against actors (firms, individuals, organizations) it regards as noncompliant without acting through an intermediary such as a state government. The US states comprise a single market and the federal government has various institutions that are able to enforce it along similar lines to the EPA.

The Commonwealth of Australia, a single market, also exhibits supranational primacy in various areas of enforcement. Its states have substantial autonomy but that autonomy can be sidestepped by the central government in certain areas of enforcement (Australian Government, 2013). For example the Australian Securities and Investments Commission (ASIC) regulates Australia's financial sector. Like the US EPA, upon identifying noncompliance in its area, it can initiate civil and/or criminal proceedings against the noncompliant party directly (Australian Securities and Investments Commission, 2013).

In the limit, we have non-federated states, which exhibit minimal degrees of autonomy for political units in layers below the central government, such as municipalities and counties. An example would be any individual member of the GCC (with the exception of the UAE[3]). In these cases, the

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2 The US Federal Government is clearly *not* a supra*national* institution since the US is composed of states and not nations. However we use the suffix "national" because were the US system to be applied to the GCC, the components would be nations rather than states.

3 Arguably a more obvious benchmark for the GCC's single market is the UAE's single market rather than the EU one. However private discussions with officials suggested that the UAE's single market is also facing its own problems. For example their customs union is apparently malfunctioning for similar reasons to the GCC's customs union. Moreover the academic literature on the EU is much richer, and therefore we have decided to focus more on the EU.

issue of centralized vs. decentralized enforcement is defunct since government power is almost completely concentrated in the central government.

5.3. Tailored Recommendations for the GCC

While the EU (or any other) system is not guaranteed to work for the GCC countries in their attempt to remedy the malfunctioning single market, it is evident that the current GCC system is ill-equipped for the task, and so something has to change. What reasonable suggestions can be drawn from others' experience?

As remarked above, a system of supranational primacy is not viable as the GCC's political institutions are currently too far away from the necessary levels of centralized power. As such the EU model is the appropriate source of inspiration.

Our most fundamental recommendation is that a supranational body be granted the legal and financial powers to monitor and enforce the single market in partnership with the individual GCC governments. Essentially this body should emulate the mechanisms embodied in the EC, including representing holistic GCC interests rather than a combination of six interests backed by veto power. Should this body be created anew or should one of the existing bodies, such as the GCC SG, have its powers expanded so that it can fulfill this mission?

Looking at the EU's experience with the EC, our preference is for the former. The EC has undoubtedly done a good job of enforcing the single market, but it has at times faced strong criticism from European citizens over its alleged lack of transparency and abuse of power (The European Ombudsman, 2008). The problem lies in striking the balance between, on the one hand, granting the EC enough autonomy and power to fulfill its mission without interruption by narrow-minded, veto-wielding sovereign governments and, on the other hand, ensuring that the EC does not abuse this relative lack of accountability in the pursuit of its own bureaucratic interests.

As scholars have argued (Niskanen, 1971; Moe, 2012), bureaucracies have a tendency to expand their activities against the interests of the people whom they are serving and they are able to achieve this because of the information asymmetries that fall in their favor. This problem is sometimes termed "bureaucratic creep." The creep problem becomes particularly acute when a bureaucracy is charged with a task that is fundamentally temporary in nature and the bureaucracy is given additional financial and/or human resources for it to undertake the task. This situation creates an incentive for the bureaucracy to intentionally slow down as task completion usually entails revocation of the additional resources garnered for the task, an outcome that most bureaucracies are keen to avoid.

Rehabilitating a malfunctioning single market is a task where most of the requisite bureaucratic effort will come at the start and will far exceed the enforcement efforts necessary further down the road. As such policymakers need to be particularly wary of the risk of bureaucratic creep when deciding upon the nature of the institutions that will be charged with the task.

To the best of our knowledge, in the context of the single market, the GCC SG has shown no evidence of bureaucratic creep. Most likely this is because it does not have the power that would allow it to creep. However rather than speculating, we recommend that a new body be convened that both wields the necessary power *and* has its post-task-completion termination declared upfront. To motivate the body's officials to actually complete their task, a large proportion of their compensation should be based on objectively-verifiable milestones that correspond to rehabilitation of the single market, e.g., the elimination of fees paid at borders when transporting goods, or the elimination of local partnership requirements when setting up a business. To further mitigate against the threat of bureaucratic creep, the body's powers should be substantial only in the range of activities related to enforcing the single market. Moreover the body should, like all other government bodies, be held accountable to some higher office in the usual fashion.

If structured correctly, the incentives should ensure that the new body goes about its job competently and swiftly, and it will also help the GCC Supreme Council to transparently identify any groups who consciously or otherwise derail efforts at establishing a functioning GCC single market.

6. Conclusion

The GCC single market is an exciting project that, on account of the cultural and linguistic homogeneity of the participating countries, potentially has a far higher economic ceiling than the EU's single market. However the five years that have passed since its declaration in 2008 have demonstrated that the single market is malfunctioning and that this is a result of lacunae in the GCC's institutional setup. Put shortly, the only body that wields substantial power (the Supreme Council) is not designed for the day-to-day of enforcement of a single market, while the bodies that are better equipped lack the power.

If the GCC wants to realize its single market in a manner consistent with the economic vision expressed at its inception, the GCC needs to grant substantial enforcement powers to a supranational body. Otherwise, managerial inertia and willful defiance by the member states will likely continue to hamstring the single market. The EU's EC is a potentially viable basis for a new-look GCC single-market-enforcement body. We especially espouse establishing a new and explicitly temporary body for the completion of this task to minimize the risk of bureaucratic creep and other such criticisms that have been faced by the EC.

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