Integration Processes among the Member States of the Gulf Cooperation Council over the Period of 2010–2018

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Abstract. In the 21st century integration processes within regional associations of developing countries intensified significantly. These processes cover almost all developing countries and their quantitative indicators are increasing. The purpose of this article is to describe integration processes in the Arab world using the example of the Cooperation Council for the Arab states of the Gulf – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia (KSA) and United Arab Emirates (UAE). This is most successful integration association in the Arab world lasting almost 40 years. Throughout this period integration process among the Gulf group states, and consequently their level of socio economic development went through significant changes, having significant research interest and practical implications. The novelty of this research is related to identification of new trends in regional economic integration among the GCC member states, specifically their focus on joint development of innovation component. Research concluded that over the period of 2010 through 2018 integration efforts of the Gulf group states were focused primarily on scientific, humanitarian and innovation activities, rather than pure trade, investments, and project efforts. This article is based on statistical and comparative analysis and systematic approach. Statistical analysis is based on the data provided by UNCTAD to ensure data compatibility.

Keywords: GCC · Economic integration · Economic development · Innovations · Digital economy

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1 Introduction

Regional integration processes have been drawing attention since the very beginning of these processes in the Western Europe and creation of the first integration associations. Initial theories currently considered as classical theories of economic integration were based exclusively on the experience of European Economic Community (Balassa 1961; Viner 1950). However, with the spread and development of integration processes researchers tend to analyze and evaluate experience of Asian countries, African and
South American nations, which contributes to our understanding of integration processes and enables to offer more comprehensive integration strategies.

Gulf Cooperation Council (GCC) established in 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates offers very interesting experience of integration processes on the Arabian Peninsula. In fact, economic integration in this association doesn’t agree with traditional approaches as member states of this associations have similar and not highly diversified national economies, they practically didn’t trade with each other, their markets were relatively small and even despite of geographic proximity they didn’t have a common transportation system. Moreover, there are still ongoing numerous territorial conflicts and other contradictions among member states (Aidrous 2018). As a result the potential for trade integration of these six nations were unclear at best.

However in 2021 this integration association will mark its 40th anniversary and many researchers are convinced that these 40 years celebrate a clear example of successful regional integration in the GCC (Al-Ubaydli and Jones 2018; Fedorchenko 2010).

In addition, this integration association developed its approach towards economic integration primarily based on the EU experience, however this experience has been successfully adapted to regional specificity. This article is focused on identifying those specific features and characteristics which emerged recently (over the period of 2010 through 2018).

2 Methodology and Data

Research is based and the systematic dialectical approach towards studying regional economic integration. Application of this approach enables the author to identify different factors of global and macro regional scale. Statistical datum and application of mathematic and statistical models enable the author to confirm certain trends in regional economic integration among GCC member states including all of the regional socio-economic characteristics, challenges and opportunities for comprehensive development and utilization of the natural resources, cultural and human potential.

This article is based on statistical and comparative analysis and systematic approach. Statistical analysis is based on the data provided by UNCTAD to ensure data compatibility.

3 Results and Discussion

From its inception in 1981 Cooperation Council for the Arab states of the Gulf undertook important steps towards achieving the goal stated in its Charter – “to effect coordination, integration and inter-connection between Member States in all fields in order to achieve unity between them” (Charter 1981) and implementing numerous programs and projects of social and economic integration. According to its Charter
Cooperation Council for the Arab states of the Gulf pursues the objective of achieving the highest degree of integration and interconnection among its member states in all areas.

In their policy documents these countries traditionally emphasized important role of economic integration for the purposes of developing their own national economies especially starting with the beginning of the 21st century (Al-Ubaydli and Jones 2018). In addition, similar to the European Union, popular support of economic integration is partially based on the assumption that economic cooperation can reduce the possibility of regional conflicts (Nugent 2017).

Clearly, integration processes within the association was never straightforward and even. GCC experienced its peaks and falls, confrontations and conflicts along with significant achievements and success. Crisis and rise of international integration process, as a rule, were triggered by internal and external factors, as well as economic and political reasons.

At present, GCC is a common market would some features of a currency union, although that union never materialized. According to the GCC regulations goods and services can flow freely across national borders of the member states. Citizens of the member states can move freely within the GCC borders, including freedom to do retail and wholesale business, they can also own shares and set up joint stock companies and make investments.

Although in reality not all of those provisions have been implemented fully, these countries nevertheless managed to achieve significant progress in economic integration and obtain positive results. Thus, researchers indicated that as part of the GCC policy Bahrain managed to integrate its national economy with the economies of its five neighboring nations – Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. The process culminated in the establishment in 2008 of the GCC common market comparable to the EU common market model (Alasfoor 2007).

Economic integration in the GCC happened with a high rate of speed – the European Union needed twice as much time to achieve the same level of integration which is currently observed in the GCC (Fedorchenko 2010).

And although lack of data does not allow scientists to demonstrate all benefits gained from economic integration of GCC member states, there is a number of indirect indicators supporting the argument that those benefits were significant. This shouldn’t be of any surprise since economic strategy of the national governments was based on using economic integration as a tool to attract foreign direct investments to facilitate jobs creation and building innovation potential (Looney 2013).

One of the traditional indicators of regional economic integration is the volume of intra-regional trade. Data presented on Fig. 1 shows that intra-regional trade in GCC was not stable over the period of 2009–2018. However the volume shows significant growth.
Thus, in 2009 intra-regional exports equaled 37,918.51 million US dollars, by 2018 this indicator reached 84,330.06 million US dollars – an increase by 2.2 times. At the same time GCC intra-regional exports in 2009 represented only 7.2% of the total exports, and in 2018 that indicator reached 10.1% or a 5.1% of regional GDP.

As shown on Fig. 1 intra-group imports in 2009 equaled 32,294.19 million US dollars and in 2018 65,175.86 million US dollars (a twofold increase) with the ratio of intra-group imports compared to total imports of 10.1% and 16.7%, respectively (or 3.9% of GDP). At the same time internal imports are less significant for the two largest economies of the region, namely Saudi Arabia and United Arab Emirates, although those two nations have the highest exports ratios within GCC (Sahib and Kari 2012, p. 224–225).

Intergroup trade volume represented only 9% of combined GDP in 2018 and only 11% of total trade volume. At the same time over the period of 2008 through 2018 it doubled in terms of its value and increased by 3% in relative terms. Those numbers suggest that first of all trade within GCC is actively growing but at the same time it is significantly lower than volumes associated with developed regional association, such as European Union. Trade liberalization and trade with other countries were growing faster than within the GCC markets, and all GCC member states are still heavily dependent on developed countries in terms of exporting raw materials and importing consumer goods.

Many researchers emphasize those circumstances – namely unstable intra-group trade and relatively lower volumes. At the same time many researchers also point out that the Middle East and North African (MENA) region is historically characterized by the lowest indicators of intra-regional trade compared to overall trade volume, especially compared to other similarly developed regions of the world (Romagnolli and

**Fig. 1.** Intra-association trade volume dynamics of the GCC member states in 2009–2018 (million USD, current prices at current exchange rates). Source: compiled by the author from UNCTAD database.
On the other hand, Nechi (2011) indicates that with the exclusion of oil exports situation appears to be far more optimistic.

In the European Union, which is often used as an example and a model of integration processes, over the period of 2009 from 2018 intra-association exports fell by 2.7% according to UNCTAD data, while within the GCC it grew by about as much. However, in 2018 this number represented 60.3% of the total export value. In 2018 intra-association imports increased by 5.4% and reached 64.5%. As of now, nobody was able to provide scientific explanation of the reduction of intra-association exports in the European Union, but it is clear that this association is also suffering from some irregularity of trade integration processes. That observation allows us to view overall situation in the GCC from a more optimistic perspective, and make arguments about growth potential in this area.

Also intra-group trade within GCC has uneven importance for different member states. For example, for Bahrain’s share of trade with the GCC partners is 42% of exports and 48% of imports (Bahrain does not export carbohydrates, but imports oil from Saudi Arabia through the pipelines). Therefore, main trading partners of Bahrain in terms of commodities are Saudi Arabia (23% exports and 40% imports) and United Arab Emirates (11% exports and 5.3% imports). Other GCC member states contributed to Bahrain trade balances insignificantly in terms of commodities turnover (Al-Ubaydli and Jones 2018).

In addition to trade integration successful investment cooperation (both internal and joint outside foreign direct investments) plays an important role for GCC member states. These countries consistently improve investment climate and business environment for foreign investments through electronic government and Free Economic Zones. Moreover, some authors argue that it is investment and overall financial components enables these countries to interact at the regional and global level and creates the true foundation for regional economic integration among the GCC member states (Shkvarya and Frolova 2017). In fact, having excess capital resources these countries make individual and collective investments both in the partnering countries, as well as in other countries, primarily from Arab world.

As shown in Table 1, GCC member states maintain relatively low level of sovereign debt, however those indicators fluctuate depending on the global conditions and vary among individual states.

| Country             | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------|------|------|------|------|------|------|------|------|
| Bahrain             | 32.8 | 36.2 | 43.9 | 44.4 | 61.9 | 75.2 | 82.3 | 66.0 |
| Kuwait              | 8.5  | 6.8  | 6.5  | 7.5  | 11.2 | 18.3 | 22.4 | 43.0 |
| Oman                | 5.2  | 4.9  | 5.1  | 4.9  | 14.9 | 21.8 | 24.5 | 35.0 |
| Qatar               | 35.6 | 36.6 | 32.6 | 31.7 | 39.8 | 54.9 | 66.2 | 102.0|
| Saudi Arabia        | 5.4  | 3.6  | 2.2  | 1.6  | 5.0  | 14.1 | 19.9 | 31.0 |
| United Arab Emirates| 17.6 | 17.0 | 15.8 | 15.6 | 18.1 | 19.0 | 18.8 | 59.0 |

Source: Central Bank of the UAE.
Over the recent years the Gulf countries executed some significant reforms including elimination of costly and distorting subsidies, as well as restructuring of the business environment and labor markets.

Gulf Group states are also attempting to control inflation. And although in 2018 inflation increased relative to the previous year, starting from 2011 overall inflation rates in the Cooperation Council for the Arab states of the Gulf were below global rates. This indicates relatively healthy economic and financial situation in the region (Fig. 2).

![Inflation rates in the Cooperation Council for the Arab states of the Gulf member states – annual change (%) 2008–2018. Source: compiled by the author from UNCTAD database](image)

GCC member states report various accomplishments and success in achieving regional economic integration along several lines such as development of human capital (first of all, education and health care), environment (including water resource management), cooperation in the area of security, culture, mass media, cooperation in infrastructure projects, science and technology and foreign policy including building strategic dialogues with leading partners such as the United States, China, India and so long.

Researchers note that joined infrastructure development to a certain extent contributed to strengthening economic integration (Al-Asaad 2009). A good example of such trend could be merging of the GCC member states’ power distribution networks. All member states benefited from increased efficiencies in the power sector, reduced demand for new investments into new generating capacity. This project also contributed to leveling energy prices by eliminating differences in national energy policies and coordinating different approaches in national regulations governing transborder energy sales and reducing existing differentiation in the national energy sectors, and coordinating different subsidies in various GCC countries. The project was initiated in 2001 and completed in three stages by 2012.

Financial resources accumulated in the Cooperation Council for the Arab states of the Gulf member states are used to support diversification and development of high-tech industries. These objectives were outlined in long term national development
strategies such as Bahrain Economic Vision – 2030; UAE Economic Vision – 2021; Kuwait Vision – 2035; Qatar National Vision – 2030; Oman Economic Vision – 2020.

Member states are intensifying cooperation in high tech industries and space exploration in order to achieve the Gulf group states common development goals (Shkvarya et al. 2019), as well as overall transformation of national economies in the nonpetroleum sectors (Shkvarya and Frolova 2017).

Special attention is paid to such areas as finance, technology transfer, improving investment climate to attract global transnational corporations (owners of new technologies) and education. Relevant legislative and institutional instruments have been put in place (Shkvarya and Solovieva 2019). For example, during the first decade of the 21st century foreign investment laws have been updated in all of the member states, Free Economic Zones are playing increasingly important role, new universities and think tanks had been established, and new methods for promoting private enterprise have been developed.

It is interesting to note that GCC member states continue their collaboration regardless of the COVID-19 virus pandemic. Among other things a Joint Coordination Response Center have been established charged with coordinating regional response and also to promote best practice exchange (GCC Health Ministers), which favorably differs GCC from the EU. At the same time GCC member states are forced to close national borders and introduce various restrictions to prevent further spread of the infection.

4 Conclusions/Recommendations

Over the period of 2010–2018 Cooperation Council for the Arab states of the Gulf Remained one of the most effective and fast growing regional integration associations. Foreign trade of the member countries including intra-group trade is increasing. There is coordination of national efforts to diversify individual economies and strengthen innovation component. Thanks to the economic integration this region transformed into a global trade center, transportation and energy hub enjoying advanced logistics with developed road networks and modern means of air, sea, and ground transportation, strong transportation links and liberal access to markets as a result of a number of free trade agreements and lower trade barriers.

This research suggests that the Cooperation Council for the Arab states of the Gulf member states in the 21st century are:

- Increasing their share in the global macroeconomic indicators such as global GDP, global trade volume, global capital flows and not only in the global energy market;
- Efficiently using modern development instruments, for example free economic zones which enable them to actively penetrate global distribution chains;
- Constantly increasing competitiveness of their national and regional economies and continuing this process even was the low global oil prices;
- Actively developing education increasing quality of human capital and their innovation capabilities, and also, they are offering their educational services on the global market;
• Constantly diversifying national economies, increasing nonpetroleum related industries and developing high tech segments, as well as service industries;
• Diversifying their foreign economic relations, pursuing more active cooperation with other developing markets, including BRICS member states.

Along with success stories some bottlenecks also need to be noted which are related to: 1) High degree of differentiation among the member states in terms of their socio-economic development; 2) Similarities among national economies. 3) Lower level of intra-group trade. As this research demonstrates Gulf state economic development practices clearly illustrate growth of integration processes, and as a result, structural changes in the national economies. Therefore a search for new measures and instruments (more relevant in the modern environment) is definitely needed to eliminate existing problems and strengthen economic integration in the region. We believe that this mission is vital not only for the GCC member states, but for Russia and the CIS states as well.

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