كلية الآداب والعلوم
College of Arts and Sciences
QATAR UNIVERSITY جامعة قطر

مركز دراسات الخليج
Gulf Studies Center

Growing but Nonmutual: Unequal Trade Dependencies and the Future of the GCC's Economic Integration

Glnar Eskandar

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Growing but Nonmutual:
Unequal Trade Dependencies and the Future of the GCC's Economic Integration

Glnar Eskandar[1]

Despite political tensions[2] and commercial competition[3], trade between the six members of the Gulf Cooperation Council (GCC) remains surprisingly robust. The steadily rising exchange of goods within the GCC is noteworthy, if only because these states vary greatly in size but not in economic composition. The dependencies formed by this trade should be the subject of study, particularly when the union's smallest economies are building high degrees of reliance on larger neighbors who have relatively less to gain from trading with them. The GCC's biggest market, Saudi Arabia, has the least to gain or lose from intra-bloc trade, and therefore little incentive to encourage economic cooperation with its neighbors.

The Gulf Cooperation Council (GCC) is a 40-year-old trade bloc comprising the six relatively homogenous economies of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). Despite their similar industrial compositions, trade between these states is not insignificant. The union's free trade and customs agreements have facilitated the flow of goods across borders, although the differences in scale and demographic needs within the GCC mean that trading with neighbors is more important to some GCC states than others. Yet, the analysis of 2010-21 trade data shows that even the embargo imposed on Qatar by three fellow members (Bahrain, Saudi Arabia, and the UAE) and the ensuring 'Gulf Rift' did not prevent intra-bloc trade from increasing over time.

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[1] Glnar Eskandar is a Ph.D. candidate at Qatar University's Gulf Studies Program, specializing in the region's economy. The author presented a more comprehensive version of these findings at the Gulf Research Meeting at Cambridge in July 2022. The full paper is pending publication.

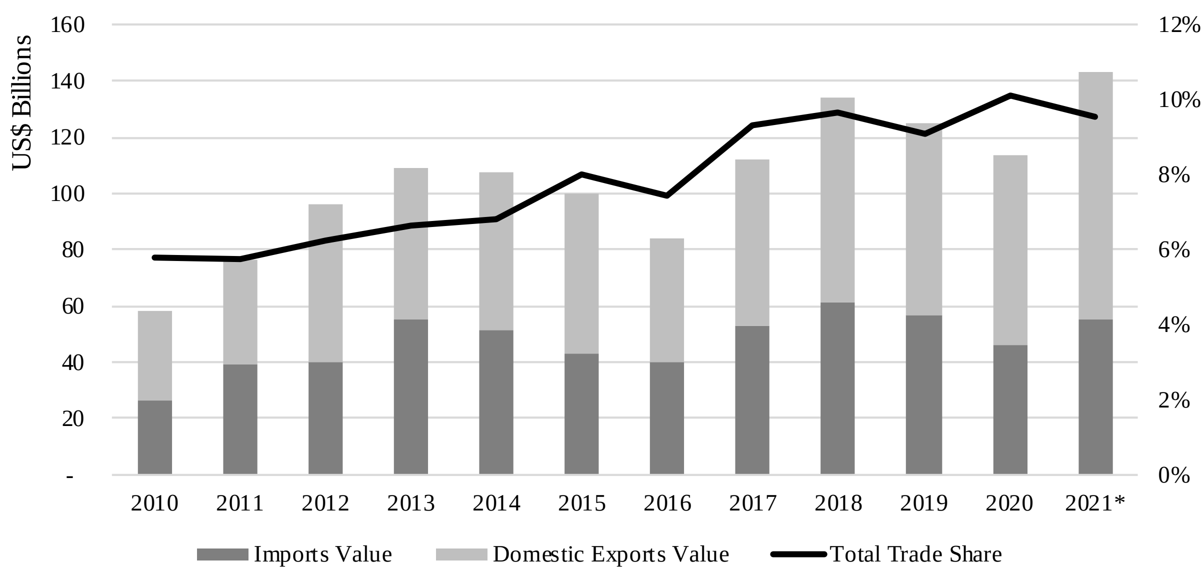
[2] https://foreignpolicy.com/2021/01/27/qatar-blockade-gcc-divisions-turkey-libya-palestine/

[3] https://www.ft.com/content/054f0788-e5f4-4b59-80c6-2e9cfd7b0a5a

Intra-GCC Trade on the Rise

Over the past decade, intra-GCC trade more than doubled from $58 billion in 2010 to over $143 billion in 2021. By 2020, eight percent of the bloc's trade was generated from within, compared to five percent in 2010. The surge in trade is largely driven by the UAE and Saudi Arabia, the GCC's largest markets and biggest contributors to the exchange of goods. Saudi Arabia is the largest importer in the union and the most lucrative market for GCC products, while the UAE is the largest exporter, contributing to over 60 percent of intra-bloc exports. Notably, although there are external factors that affected the value of intra-GCC trade (e.g., energy price drops), trade within the union declined at a slower rate than trade with the rest of the world. Intra-bloc trade, it appears, is more resilient to external shocks than trade with partners outside the bloc.

Figure 1. Intra-GCC Total Trade and Share, 2010-2021



**2021 figure does not include data from Bahrain as its trade values are not yet public.*

Unequal Dependencies Within the GCC

This growing trade did not translate into mutual dependencies across the GCC. Bahrain and Oman's economies are relatively heavily dependent on intra-bloc trade. By 2020, 43 percent of Bahrain's trade was either sourced from or destined to fellow bloc members, compared to only

11 percent in 2010. Similarly, Oman's trade with its neighbors increased from 22 percent as a share of the total in 2010 to 30 percent by 2021. Per the *Total Trade Dependence* index[4], between 2010-2020, approximately 35 percent of Bahrain's economy was supported by trade with its neighbors. Meanwhile, Oman's trade with the rest of the GCC was equivalent to 19 percent of its Gross Domestic Product (GDP). Interestingly, during the 2017- 2020 Gulf Rift, neither economy was deterred by Qatar's negative experience of dealing with the vulnerability of depending on neighbors for key imports. Both smaller economies maintained their dependence on the rest of the bloc for trade, even though much less reliant Qatar was completely overwriting its trade diversification strategy.

The UAE's economy is the third most dependent on intra-bloc trade. By 2021, the UAE's trade with its neighbors was equivalent to 17 percent of its GDP. Yet, the UAE's position as an international trading hub means that the value of trade with its neighbors remains relatively marginal tot its total, although contributing to nearly half of intra-bloc trade activity alone. Thus, trade with the bloc accounted for only nine percent of the UAE's total in 2021, compared to four percent in 2010. Notably, the value of the UAE's trade with its neighbors more than quadrupled over the past decade.

By comparison, Saudi Arabia never depended on trading with its neighbors; intra-bloc trade was equivalent to five percent of the Saudi kingdom's GDP in 2021, compared to three

[4] This paper uses the Total Trade Dependence and the Total Trade Share indices to measure the significance of intra-GCC trade. The Total Trade Share index assesses how reliant each GCC nation is on the rest of the bloc for imports and exports. It reveals the GCC's susceptibility to disruptions in intra-bloc trade. Meanwhile, the Total Trade Dependence index measures the significance of a GCC country's trade with its neighbors relative to its economic output, i.e., Gross Domestic Product (GDP). The higher the ratio, the more dependent an economy is on trading with its neighbors.

$$\text{Total Trade Share} = \frac{\sum_{gG} X_{gG} + \sum_{Gg} M_{Gg}}{\sum_{gW} X_{gW} + \sum_{Wg} M_{Wg}} \text{ x } 100$$

$$\text{Total Trade Dependence} = \frac{\sum_{G} X_{gG} + \sum_{G} M_{Gg}}{\text{GDP}_g} \text{ x } 100$$

In the indices above, adopted from Mikic and Gilbert's guide on trade analysis (2009, pp. 44-49), **X** stands for exports, **M** stands for imports, **g** is the gulf country under study, **G** is the rest of the GCC, and **W** is the world's remaining trade partners. Total trade is measured as imports plus exports, excluding re-exports. The analysis uses GDP in current prices and individually reported trade data from 2010-2021, with all values in USD. The trade data used in this study are sourced from UN Comtrade, CEPII, and WITS. GDP estimates are sourced from the World Bank's Open Data portal.

percent in 2010 (though its value more than doubled). Saudi Arabia is the second largest contributor to trade within the region, but given its relatively massive economic size, its reliance on its neighbors for trade as a share of its total only increased from four to nine percent over the past decade. In general, given that the kingdom houses the GCC's largest markets, producers, and consumers, Saudi Arabia benefits the least from intra-bloc trade as a share of GDP (half of the GCC's population resides in Saudi Arabia, and the kingdom's $800 billion economy is nearly the size of all the other GCC economies combined).

Kuwait was also never deeply dependent on its neighbors for trade, though its reliance grew marginally over the past decade from five to eight percent between 2010 and 2021 (i.e., intra-GCC trade as a share of Kuwait's total). It appears Kuwait has little to trade with its neighbors, in general, but the value of this trade is also relatively small compared to its GDP. In 2021, eight percent of Kuwait's trade was either destined to or sourced from the GCC, but that was equivalent to only four percent of the country's GDP.

Finally, Qatar represents a special case: it is the only GCC member going against the trend. The emirate's trade with the rest of the GCC forcibly declined following the 2017-2020 embargo led by three of its fellow bloc members and former leading trading partners. Qatar increased trade activity with Kuwait and Oman during the rift when trade with the UAE, Saudi Arabia, and Bahrain halted. However, this new trade pattern did not recover Qatar's reliance on the GCC. Prior to the embargo, in 2016, 12 percent of Qatar's trade was sourced from or destined for its neighbors. This share declined to three percent in 2018 and recovered somewhat to six percent by 2021 following the embargo's end. At the same time, Qatar's GCC trade dependence index declined from eight percent in 2010 to two percent in 2018 during the rift and recovered slightly to four percent in 2021 following the rift's reconciliation. With several trade diversification measures in place (namely the food security strategy[5]), it is unlikely that Qatar will revert to pre-rift trade dependence on its neighbors, despite the reconciliation.

Still Together: High Commodity-Specific Dependence Across the GCC

The differences in the level of dependence do not mean the absence of commercial cooperation inside the union. For the smallest GCC economies (Bahrain and Oman), there appears

[5] https://www.mme.gov.qa/pdocs/cview?siteID=2&docID=19772&year=2020

no better alternative than to stick with neighbors: a thorough examination of commodity-specific dependence paints a bleak picture for them if the union falls apart. These countries are highly exposed to intra-bloc trade shocks. As illustrated in Table 1, more than one-third of the metals, stones, glass, plastics, and rubber that Oman and Bahrain import come from the bloc. Oman depends on the bloc for nearly half of ten imported commodity groups, while over 70 percent of eight Bahraini export categories are destined for the GCC alone. Oman and Bahrain would fare poorly in the event of an intra-bloc trade shock or embargo like the one Qatar withstood for four and half years. Unlike Qatar, Bahrain and Oman do not possess the fiscal reserves to help them overcome similar trade disturbances.

Yet, in terms of selected commodities, the bloc's larger economies are not invulnerable to trade dependence and disruptions either. Almost a quarter of Saudi Arabian and Emirati-produced machinery, metals, and food are exported to the GCC. More than one-third of the food produced in the GCC is sold within and mainly saturating the markets of the four smallest states. Over 50 percent of Saudi Arabian and over a quarter of Emirati food, vegetables, and animals are destined for the bloc. Meanwhile, nearly two-thirds of Oman's imported food and a quarter of Bahrain's imported food are from the GCC. This interdependence can be advantageous in times of peace, but it could pose a serious risk to both producers and consumers during times of intra-bloc unrest.

Table 1. *The Average Percentage of Goods Sourced from or Destined to the GCC, 2010-2020 (%)*

HS Category	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC Total
Imports							
Animals & Animal Products	24	21	34	26	10	14	16
Vegetable Products	13	8	22	14	5	3	6
Prepared Foodstuffs	24	20	61	27	13	8	15
Mineral Products	71	55	47	55	30	24	35
Chemicals & Allied Industries	14	20	43	15	8	8	11
Plastics & Rubbers	32	25	51	20	12	19	20
Raw Skins, Leather, & Furs	1	1	50	1	0.5	0.2	1
Wood & Wood Products	20	23	48	16	9	6	11
Textiles	3	10	54	4	3	1	3
Footwear & Headgear	2	1	48	3	0.3	0.2	1

Stone & Glass	54	51	65	14	33	2	6
Metals	34	25	47	23	23	10	19
Machinery & Electrical	6	5	30	4	2	1	3
Vehicles, Aircraft, & Vessels	1	2	7	2	2	0.04	1
Miscellaneous	7	7	36	4	3	1	4
Not elsewhere specified	17	5	26	0.1	6	0.004	0.4
Exports							
Animals & Animal Products	63	40	53	53	74	38	53
Vegetable Products	62	48	62	69	48	23	28
Prepared Foodstuffs	79	60	38	72	49	23	28
Mineral Products	17	0.01	4	4	0.05	1	1
Chemicals & Allied Industries	26	13	14	9	9	39	18
Plastics & Rubbers	53	16	26	6	8	14	11
Raw Skins, Leather, & Furs	81	34	60	26	5	41	37
Wood & Wood Products	76	60	74	49	37	39	40
Textiles	51	48	40	56	24	29	30
Footwear & Headgear	96	66	41	57	78	55	56
Stone & Glass	75	64	65	20	47	10	11
Metals	37	46	43	38	31	25	29
Machinery & Electrical	78	58	66	44	54	27	30
Vehicles, Aircraft, & Vessels	51	29	43	39	64	16	25
Miscellaneous	70	58	66	24	53	27	31
Not elsewhere specified	76	15	2	4	19	0.001	0.05

Note: The above shares are based on monthly averages of available data from 2010 to 2020. They do not reflect changes over time. For instance, Qatar's reliance on the GCC declined considerably following the 2017 embargo, but the value in the table reflects Qatar's 11-year average dependence.

What's Next for the GCC's Economic Cooperation?

The GCC states have different motivations for boosting mutual trade cooperation. Based on gains from trade alone, Saudi Arabia has the least incentive to push for greater intra-bloc trade. Moreover, the kingdom's current level of intra-bloc trade is arguably insufficient to discourage friction with other bloc members. Qatar and Kuwait are less motivated to call for greater cooperation as they have grown increasingly independent from their neighbors. By comparison, Bahrain and Oman, the most reliant on GCC trade, have the most incentive but the least economic power to secure intra-bloc cooperation. The GCC's most likely advocate for greater future economic integration is the UAE; it is the member state with both the economic motivation and clout to advocate for greater intra-bloc trade. Nonetheless, without Saudi Arabia, any attempt at furthering the GCC's economic unity will crumble. If trade within the union does not benefit its largest member, then trade, no matter how great it becomes, will be insufficient in binding the union's members together.

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