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ATHENS UNIVERSITY
OF ECONOMICS
AND BUSINESS

APPROACHING THE GULF

POLITICAL AND ECONOMIC RELATIONS BETWEEN THE EUROPEAN UNION AND THE GULF COOPERATION COUNCIL

by
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To the one Truth,

common to all humanity

CONTENTS

CHAPTER 4
ASPECTS OF OPPOSING DIRECTIONS:
POLITICAL DIFFERENCES AND ECONOMIC OBSTACLES

SUMMARY

The bilateral European Union (EU) and Gulf Cooperation Council (GCC) relations began to be delimited by a coordinated institutional framework in 1989 with the activation of the Cooperation Agreement (CA). From then on this partnership has had many obstacles to overcome since minimal initiatives have succeeded in successful completion of key issues such as the common acceptance for the start of a Free Trade Agreement (FTA) which is still a matter of negotiation. Intense disagreements, several points of divergence and the changing of priorities in economic and political level have brought this relationship at a crossroads between deceleration and stagnation. Although, the different structure of the two transnational unions, the appearance of bilateral contacts against multilateral agreements, the alternative economic development and trade policy that they follow as well as the dissimilar political culture arise many hurdles among them, the attempts to maintain and to create new communication and collaboration networks proves that this is a cooperation with strategic character for both sides. However, in order to become this partnership viable it should be adopted with a single policy line at regional level, creating relationships of interdependence which, in turn, will lead to a steady pace of recovery, deepening of their relations and with positive future prospects.

LIST OF ILLUSTRATIONS

DIAGRAMS

TABLES

CHART

FIGURE

MAP

ACRONYMS

BRIC	Brazil, Russia, India, China
CA	Cooperation Agreement
CFSP	Common Foreign and Security Policy
EEC	European Economic Community
EMP	Euro-Mediterranean Partnership
EU	European Union
FDI	Foreign Direct Investments
FNC	Federal National Council
FSC	Federal Supreme Council
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
JAP	Joint Action Program
MENA	Middle East and North Africa
NATO	North Atlantic Treaty Organization
OPEC	Organization of Petroleum Exporting Countries
PPP	Purchasing Power Parity
RMP	Renewed Mediterranean Policy
VAT	Values Added Tax
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
USA	United States of America
US	United States
WTO	World Trade Organization

INTRODUCTION

The EU and GCC relations constitute a contemporary study in the history of international and economic relations. Although they are structurally two different transnational unions with dissimilar cultural backgrounds, their cooperation has been driven by the belief that their contacts could be developed around a framework of mutual benefits at a multilateral level of cooperation.

From 1989 when their cooperation was institutionally enshrined, several channels of communication have been created in order to deepen their relations at an economic, social and political level while despite the presence of the United States of America (USA) as a guarantor of security in the area, cooperation was envisaged around security issues as well.

However, the change of priorities and the disagreements regarding the adoption of a single policy line started to hinder this relationship, creating staggering signs overthrowing the initial expectations and putting to the test to what extend this relationship is of strategic importance . Nonetheless, the fact that they have constantly exposed new cooperation initiatives, adapted to each international development and the multifaceted negotiations consist an ongoing situation, demonstrates that this is a partnership that could overcome the stagnation obstacles and respond to future challenges and the need for common interest for growth and progress.

Thus, the purpose of this study is to mainly introduce the organization and structure of the GCC given the fact that it consists an international organization shaped around a different institutional framework compared to that of the EU. Respectively, it will present the characteristics of the social and political culture of the GCC member states as well as their macroeconomic features and other demographic data.

Thereafter, the diachronically evolution of the relations between EU and GCC at institutional and political level would be presented with reference to the challenges that prevent the development of this partnership and in the deepening efforts which have been promoted over time so that the relationship becomes fully operational with mutual benefits.

In addition, an attempt will be made to approach their economic and trade relations in response to questions such as what trade patterns have been developed between them, what position they have in the world economy, what trade policy they are pursuing and on what goods or services, which partners represent the largest share of their commercial contacts, how easy investment from one region to another is and how the international impact affects their relationships.

Finally, the key factors that slow down negotiations will be examined as well as the barriers and diffused interests that hinder the completion of an FTA and the weaknesses should be overcome to lead to a better cooperation on security issues.

"All unions are based on mutual needs".

Montesquieu, French writer and philosopher

CHAPTER 1
GENERAL CHARACTERISTICS OF THE GCC:
POLITICAL AND ECONOMIC PROFILE OF THE MEMBER STATES

1.1 ESTABLISHMENT, ORGANIZATION AND STRUCTURE OF THE GCC

The Cooperation Council for the Arab States of Gulf or the Gulf Cooperation Council, which is the official name as international organization, is a relatively recent transnational institution in the global arena; however, it is significant enough both for its political and economic status in the context of regional collaborations. The area has always provoked interest due to its geographical location and for its natural resources, while the creation of a regional union was able to attract the attention of other international actors.

In the early 1980's and specifically on 25th May 1981, six states of the Arabian Peninsula - the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Kuwait, the State of Qatar, the Sultanate of Oman and the United Arab Emirates (UAE) **–** decided, except from the strengthening on defense and security level, a more integrated partnership among their countries in a sensitive area of instability and war (Ayadi & Gadi, 2014: 48). The leaders of these Arab states, at the founding meeting of the organization in Abu Dhabi-UAE-, agreed on the establishment of a Charter, which foresees deeper interconnection and consolidation in multi-topic issues. Also, it provides greater cooperation between their citizens and strengthening of their relations (Kingdom of Bahrain-Ministry of Foreign Affairs, 2017).

Thus, this agreement came as a result of their mutual cultural elements and socio-political structure, expectation which reflected a common sense within an Arab regional unity. In combination with their geographical proximity, the interaction was inevitable. Therefore, GCC was the institutionalization of a reality from a historical point of view as well as economic growth and defensive coalition in a fragile area.

As mentioned in article 4 of the Charter, the main objectives are revolved around the following features:

i. *"To effect co-ordination, integration and inter-connection between the member states in all fields in order to achieve unity between them.*

ii. *To deepen and strengthen relations, links and areas of cooperation now prevailing among their peoples in various fields.*
iii. *To formulate similar regulations in various fields*
iv. *To stimulate scientific and technological progress in the fields of industry, mining, agriculture, water and animal resources: to establish scientific research: to establish joint ventures and encourage cooperation with the private sector for the benefit of their peoples."*

In particular, in the third paragraph of the article, they included sectors which reach a wide range of social benefits, services and economic activities such as: education and culture, social and health welfare, legislative and administrative affairs, information and tourism, commerce, customs and communications and economic and financial issues (Gulf Economic Interactive Gate, 2015).

Supreme Council

The Supreme Council appears as the highest organ of the GCC. It is composed of the leaders of the member states. Their meetings are scheduled on a regular basis once a year and the presidency is with alphabetical order. However, additional sessions are predicted when a member state proposes such a request and has the official support from another member state. In Abu Dhabi's session in 1998, the heads of the Supreme Council decided to import one more meeting with consultative character betwixt the last and the session. The summit is considered to be valid when the two thirds of the member states are involved. In the voting procedure each member state has the right of one vote. Issues relating to vital importance areas such as security or economy, follow the unanimity process, while issues with procedural nature are taken by the majority vote.

Additionally, the Supreme Council is assisted by the Consultative Commission which consists of thirty members as experts, five from each state, and their term of office is three years. It examines topics after referral of the Supreme Council.

The last body of the Supreme Council with assistant role is the Dispute Settlement Commission. Hierarchical is below from the highest authority of GCC and is constituted by the Supreme Council. It is convened in any case of misinterpretation of the charter GCC Secretariat General, 2017).

The Ministerial Council

The Ministerial Council is the second key institutional body and the main meeting place of Foreign Ministers or other delegated Ministers who substitute them. The member state that has the last ordinary presidency in the Supreme Council, undertakes the presidency of Ministerial Council. The intended meetings are held every three months, while regulation provides for extra sessions after a member states call and having the support of another member state. Similar to the Supreme Council, the consultation is valid when the two thirds of the member states are involved and the voting procedure is the same with the Supreme Council.

The cooperation between Ministerial Council and Supreme Council is immediate. The Ministerial Council participates in the legislative process, as it has the right of making decisions; however, they are submitted in the form of recommendation to the Supreme Council for approval. Moreover, it is responsible for defining the agenda and preparing the meetings of the Supreme Council (GCC Secretariat General, 2017). Furthermore, at a Ministerial level whenever required, are composed various individually economic, educational, social and other committees with purpose the systematic production of studies and similarly the submission of recommendations to the Supreme Council (World Bank, 2010: 5).

Other main jurisdictions and functions of the Ministerial Council are the formulation of the policy and the drafting of recommendation in order to facilitate collaboration among the member states making the realization of their goals.

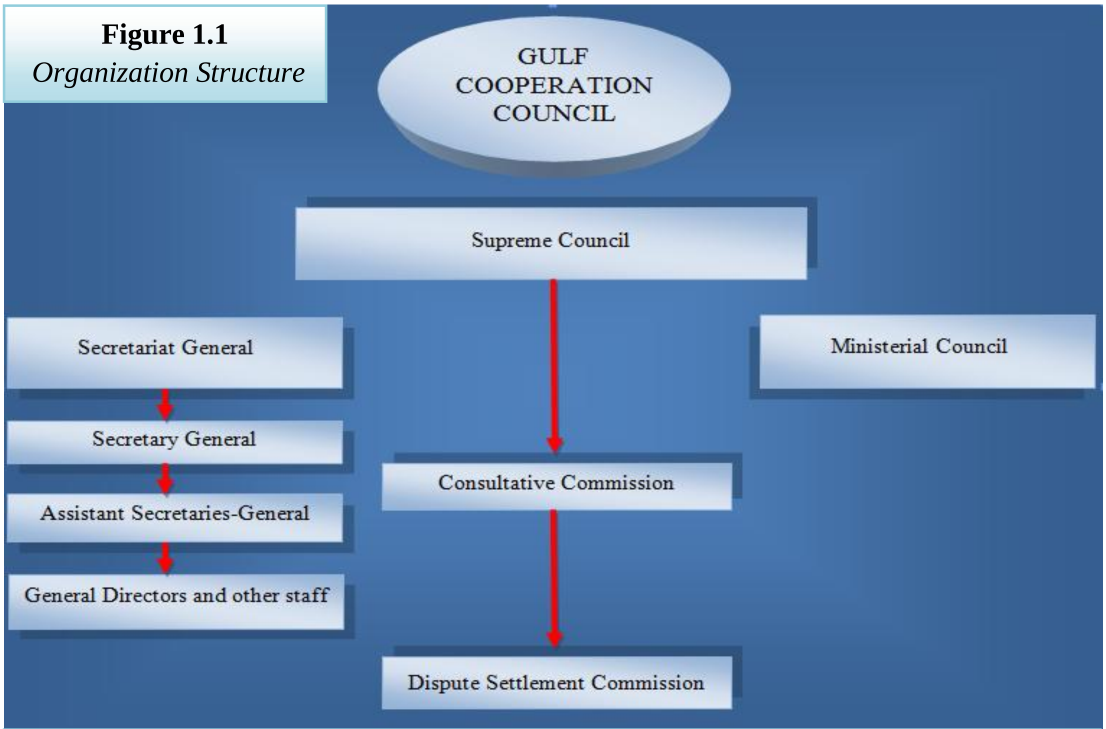
The Secretariat General

The Secretariat General has an extensive bureaucratic and supporting role by presenting specific studies with political, economical, social, security content or intellectual property rights. Likewise, it prepares periodical reports, it coordinates the joint action and generally is presented as the "public administration" of the GCC acquis. Furthermore, it examines requests from the Supreme and Ministerial Council, in order to coordinate meetings of various organs, finalizes their agenda and drafts their resolutions (GCC Secretariat General, 2017). As defined in the articles of association, the Secretariat General is regarded as an independent institution of which the budgets are evenly distributed across the member states (World Bank, 2010: 5).

Given the expanded role of the secretariat and the multiple issues it deals with, it is staffed by: Firstly, the Secretary General who is appointed by the Supreme

Council. Its tenure of office is three years and he has the right for one more re-election. Secondly, it consists of eight Assistant Secretaries-Generals. Their tasks are subdivided into many portfolios which are related with political and legal issues, with military and security topics, with humanitarian, environment and cultural affairs, with media and information, with economics and administration as well as on issues of negotiation and strategic dialogue. In their positions they are appointed by the Council of Ministers and have the right for a renewable incumbency for three years. The representatives of GCC in EU and in United Nations (UN) are subject to Secretariat General and are part of the secretariat's administrative staff. Lastly, it has some General Directors and other staff with supporting role, who appointed by the Secretariat General (GCC Secretary General, 2017). [1]

Figure 1.1
Organization Structure



Source: Author's Own Construction

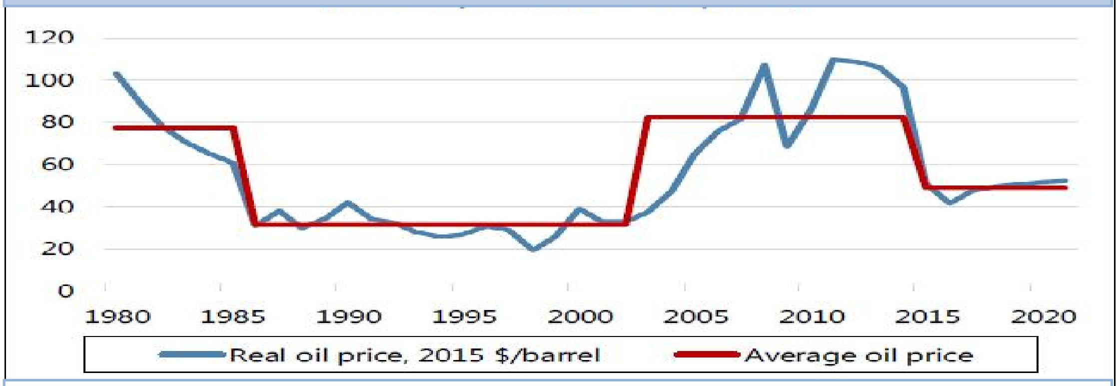
The organization and the functioning of the GCC (Figure 1.1) focuses its institutional integration on the initiatives of its national governments (World Bank, 2010: 4), giving to the other bodies responsibilities of more executive character.

[1] Apart from the above main bodies there are and some other technical bodies and agencies which were established in the coming years like the Bureau of Technical Secretariat of Anti-injurious Practice in International Trade and the Technical Office of Communications as well as the Office of Consultative Commission, the GCC Patent Office, the GCC Standardization and Metrology Organization, the Regional Committee for Electrical Energy and more recently the Monetary Council.

1.2 MACROECONOMIC FEATURES

Although the area of the Gulf has common historical past and similar cultural and political elements, the socioeconomic development depicts heterogeneous points. The continuously exploitation of natural resources which oriented their economy, namely hydrocarbons and oil, since 1970s, has as result the simultaneous reduction in reserves and consequently economic diversification which were the absorption of state policy decisions (Ayadi & Gadi, 2014: 47). From the beginning of oil extraction, GCC countries have faced intense fluctuations in the oil prices (Diagram 1.1), a product that, as it was said, shapes to the greatest extent their economy (Fouejieu et al., 2016: 5). The need for economic change orientation, in combination with other social factors like high population growth, the entrance of young people in labor market and rising unemployment rates among young people, is not visible only in countries like the Kingdom of Bahrain and the Sultanate Oman which the reserves are in low levels, but it is a common request from population of GCC countries (Sturm et al., 2008: 14).

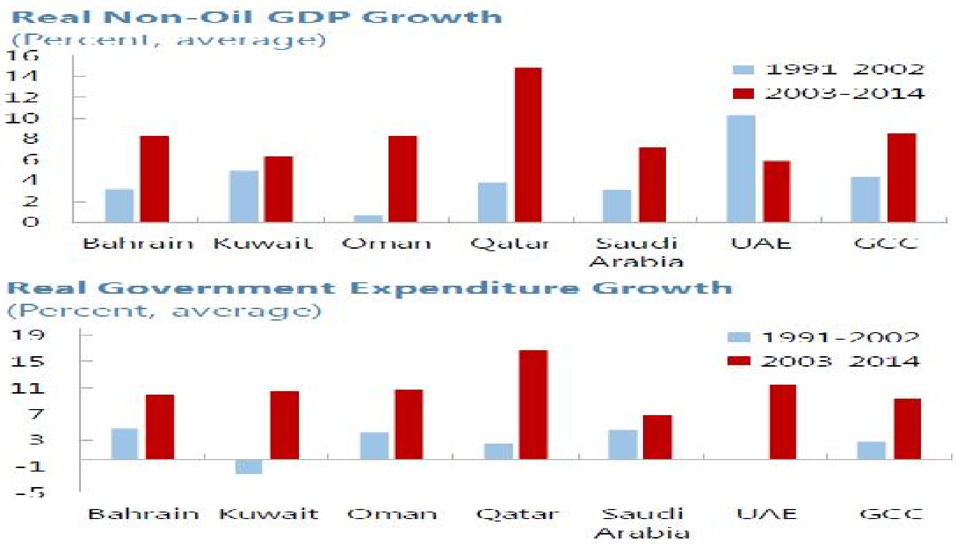
Diagram 1.1
Periods of Higher and lower oil Prices



Source: Fouejieu et al.

Calculating in real terms at 2015 United States (US) prices, non oil growth was uplifting when the oil prices were higher and vice versa (Diagram 1.2). For instance, during the period from 1991-2002 with lower oil prices the average non oil Gross Domestic Product (GDP) growth was 4.3% per year whilst from 2003 until 2014, with higher oil prices, was 8.4% annually. From the mid of 2004 oil prices have a downward trend and the predictions shows to be at almost the same constant levels until 2021. Exception to the rule is the UAE which had high growth rates when oil prices were under collapse. Additionally, both for UAE and Kuwait their development was influenced and engaged more than the other members of GCC, by two unstable factors in two different decades: from the First Gulf War in early ‘90s and the Dubai World crisis in 2009-10 (Fouejieu et al., 2016: 5)

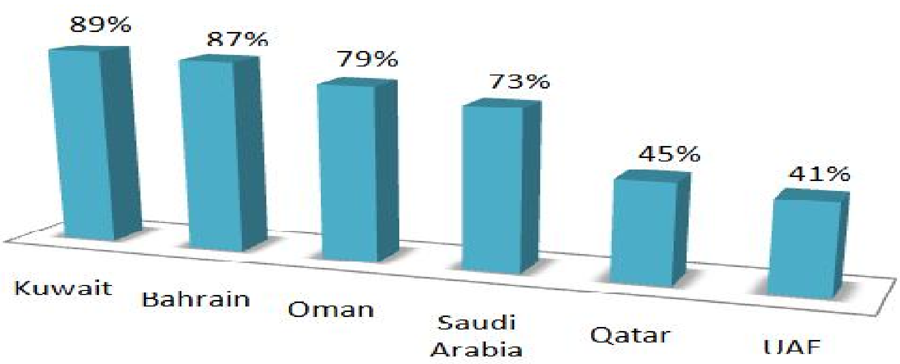
Diagram 1.2
Growth when Oil Prices are Higher:
Non Oil GDP and Government Spending



Source: Fouejieu et al.

As the below diagram depicts, even in 2015 the dependence on oil is high, albeit the attempts that are being made for diversification in the last years. Indicatively first in percentage with the greatest dependence on oil was the State of Kuwait with 89% and last the UAE with 41%, differentiating once more its position from the rest of GCC states.

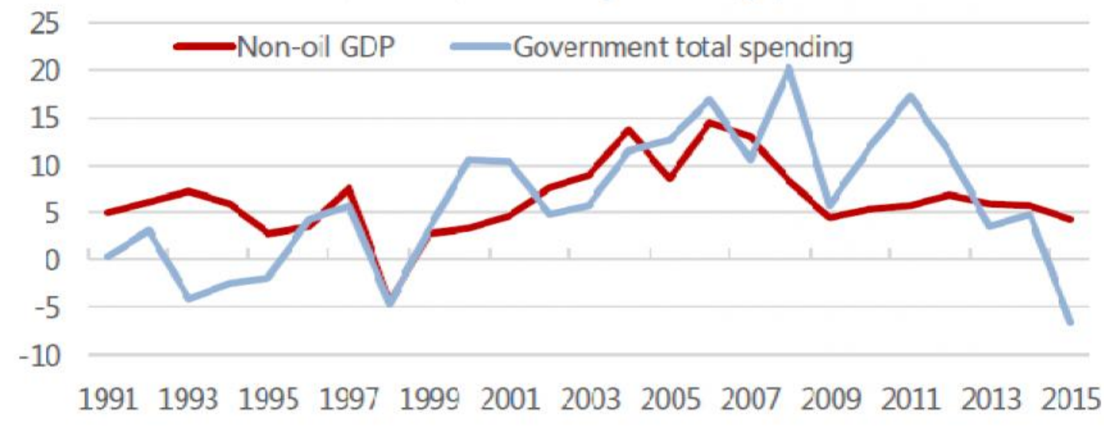
Diagram 1.3
-GCC Government Dependence on Oil GDP-
GCC Oil Revenues as % of Government Revenues for 2015



Source: Youssef et al.

This interdependence, between development and oil prices, has prompted GCC member states to take alternative measures in order to balance their fiscal status. Notably, they launched a restrictive fiscal policy in non oil sources by reducing spending and generating revenues (Youssef et al., 2016). Over the past decades until 2008, non oil GDP and government spending had a positive correlation (Diagram 1.4). Nevertheless, the increased government spending in 2008 has as a consequence, minimal to negative correlation (Fouejieu et al., 2016: 9). Probably, a further privatization consists a more potential way of fiscal consolidation, as the public sector has the leading role in these economies (Youssef et al., 2016).

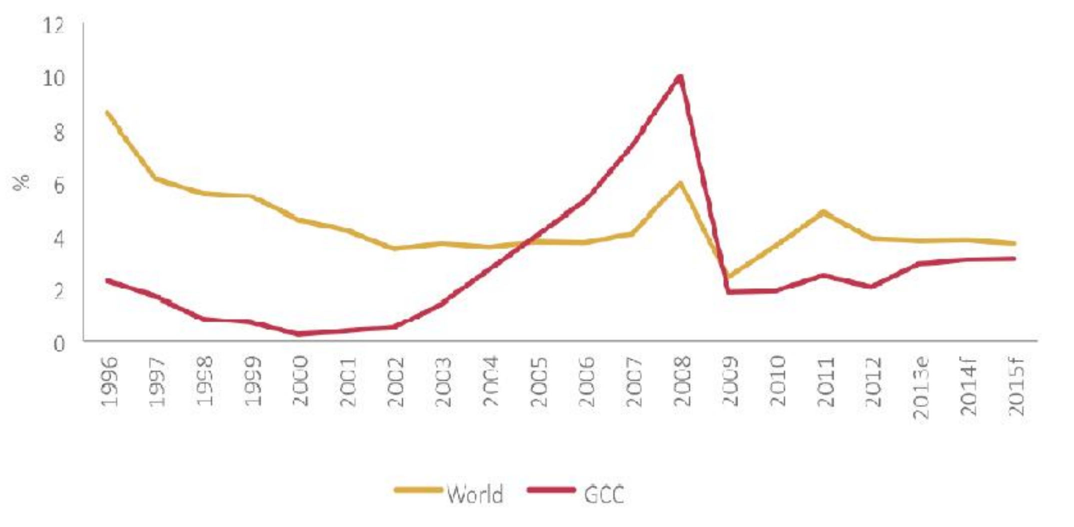
Diagram 1.4
Government Spending and non-oil GDP Growth in the GCC
(Percent, GCC Simple Average)



Source: Fouejieu et al.

As far as inflation is concerned, observing it, we could divide it into two periods, each of which is shaped by other features of the global and domestic economy (Diagram 1.5). Thus dividing the periods before the global financial crisis of 2008 and beyond, in the first case the main characteristic was high and constantly rising prices in international level in products like food and petrol. The continuing fluctuations in the value of the US dollar and hence the exchange rate, created a regime of uncertainty for investors but also to the basket of goods. Surely such instability has created respective dilemmas in terms of policy making among GCC countries. But after the outbreak of the global financial crisis, the image of high inflation has been steadily reversing and operating in such a way that food and other basic goods prices have fallen. Especially in the GCC members states inflation has shrunk from 11% in 2008 to 3% in 2012 (Gulf One Investment Bank, 2013: 3).

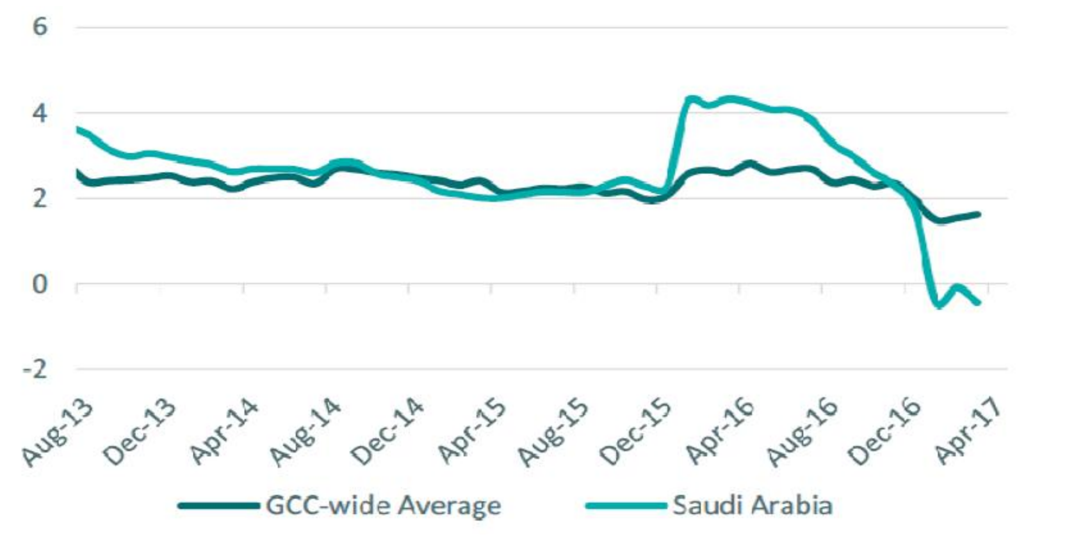
Diagram 1.5
Global and GCC Annual Inflation Rates (%)



Source: Gulf One Investment Bank

From 2013 onwards inflation stabilized in GCC countries without any particular fluctuations, despite the increased production capacity in a static development and the changes introduced in energy subsidies and increased prices in the corresponding sector (Diagram 1.6). Average inflation in 2016 was at 2.5% on a scale that started at 1.1% in the Sultanate of Oman with the lowest rate with the maximum percentage appearing in the Kingdom of Saudi Arabia of the order of 3,5%. For 2017, inflation tends to be downward cumulatively as the factors that affect upward energy prices are at a recession (World Bank Group, 2017: 12).

Diagram 1.6
Average Headline Inflation in GCC



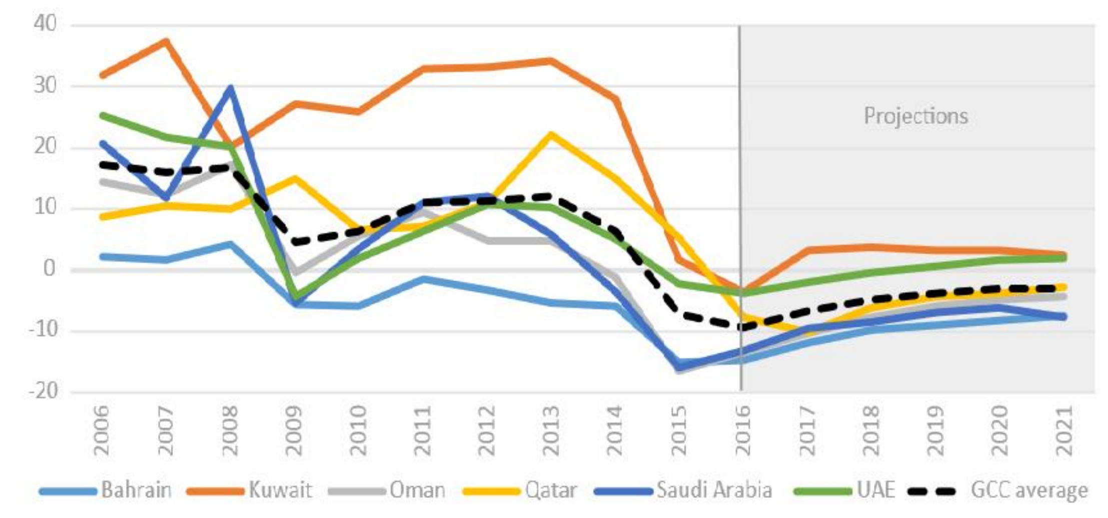
Source: World Bank Group

More specifically, the Kingdom of Bahrain from 2009 adopted an expansionary fiscal policy which was particularly ineffective. In 2015 the fiscal deficit was at 12.8% of GDP (Diagram 1.7) (World Bank, 2017). Albeit public spending boosted the economic development by 2.9 %, it has reduced stocks to less than 3 months of imports and the public deficit increased over 60% in 2016 while the inflation -the first months of 2017- showed a declining trend by touching 0.8% (Diagram 1.9) (World Bank Group, 2017: 13,15). Despite efforts that are being made for fiscal recovery, the low oil and bauxite prices has a direct impact on its economy given the low stocks in these goods. The predictions for further economic growth for the next years are inauspicious with increased fiscal risks. It is predicted that for 2017 and 2018 the real GDP growth will be at 1.9%, as low oil prices exercise pressure on both private and public consumption (World Bank, 2017). Moreover, an enormous future challenge for the authorities is the diversifications in other competitive sectors like tourism, finance and industry in combination with limited revenues and the people's demand to maintain satisfactory state subsidies and a large public sector. Except from oil, other vital sectors for the economy of the Kingdom are the production of aluminum which is the second largest exportable product after petroleum, finance and constructions. The search for new natural gas suppliers continues to be high on the agenda as well as for raw materials to develop the petrochemical and aluminum industry (CIA-The World Factbook, 2017).

Concerning the State of Kuwait despites its small geographical area, it has huge reserves of crude oil which representing over 6% of global reserves. Additional oil, contributes more than 50% of GDP, represents the 92% of export revenues and the 90% of government income. The recent fall in oil prices led to deficits after 15 years (Diagram 1.7). In order to balance the situation, the government has promoted the support of the *Reserve Fund for Future Generations*, saving annually 10% of state revenues (CIA-The World Factbook, 2017). Inflation is gradually declining due to reduced food and housing prices (Diagram 1.9); however in other sectors and products, inflation remains comparatively higher (World Bank Group, 2017: 12). Growth in 2016 has been booming due to rising oil production and infrastructure as a result of country's Development Plan; the GDP increased to 3% in 2016 compared with 2015 where it was 1.8% (Diagram 1.8). Alongside, diversification efforts attributes as non oil sector has risen by 2% in 2016 in relation with the previous year where it was 1.3%, while for 2017 GDP will be slowing down around 2.5%, given that Organization of the Petroleum Exporting Countries (OPEC)[2] has made cuts in oil production. On the other hand, the government of the State of Kuwait is routing a development program in order to enhance the oil production starting in 2018. Particularly, within five years they will spend US $115 billion and in combination with the assist of public investment spending is calculated that in medium term the development will be at 3.2%. Basic preconditions for the correct application of this target are the necessary reforms in spending and revenues as well as the standard establishment of Values Added Tax (VAT) in 2018. The political stability is a prerequisite for the above as well as at what percent the dependence on hydrocarbons will continue to subsist (World Bank, 2017).

Diagram 1.7

GCC Budget Balance, % of GDP



Source: Official Monetary and Financial Institutions Forum

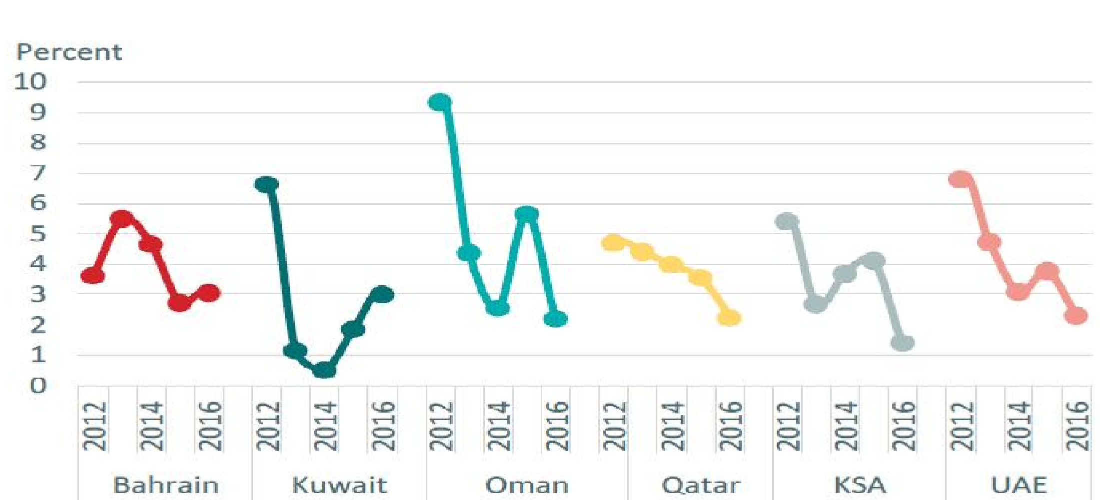
Quite burdened appears the economy in the Sultanate of Oman, of which the oil production contributes to state revenues by 84%. After the Arab Spring in 2011 and due to the constant low exports oil prices the government in order to balance the increased welfare benefits, proceed to cuts in 2016 in subsidies for gas and diesel fuel, while reductions in subsidies for electricity and liquid petroleum gas continued. The external borrowing was deemed necessary as both fiscal and current account deficits were expanding due to continuously low oil prices (CIA-The World Factbook, 2017). The diversification in non oil sectors like tourism and fishing consist an investing plan

[2] From the GCC countries, the Kingdom of Bahrain and the Sultanate of Oman are not member states of OPEC while all of them participate to the regional organization of the League of Arab States.

which they focused on its growth in the direct future. The real GDP in 2015 was 5.7% while in 2016 the reduction was sensible as the year closed with 3.7 units less (Diagram 1.8). The predictions for 2017 are equal discouraging. The most likely scenario is that the real GPD growth will be beneath 1% for two reasons: a) Due to the diminutions in recent years in public spending with consequences in investment and consumption, which have as outcome the parallel reduction in non hydrocarbon GDP; in 2016, was 2% from 7% in 2015; hydrocarbon GDP showed another reduction in 2016 from 2015 with percentages 2.4% and 4.2% respectively, b) Owing to the agreement with OPEC for decrease in oil production until the first half of 2017. The 2017 budget has been reducing spending by 8% increasing the public deficit in percentage of 10.6% of GDP (Diagram 1.7). The steady rise of interest rates has the effect of continuing tight monetary policy whilst having the electricity tariffs and the food prices (in global level) in rising, the upcoming inflation will be higher by 1.4% (World Bank, 2017). Due to rising housing, fuel and transportation prices, the Sultanate of Oman was one of the two states that presented increase inflation from the first months of 2017 (Diagram 1.9) (World Bank Group, 2017: 13).

Diagram 1.8

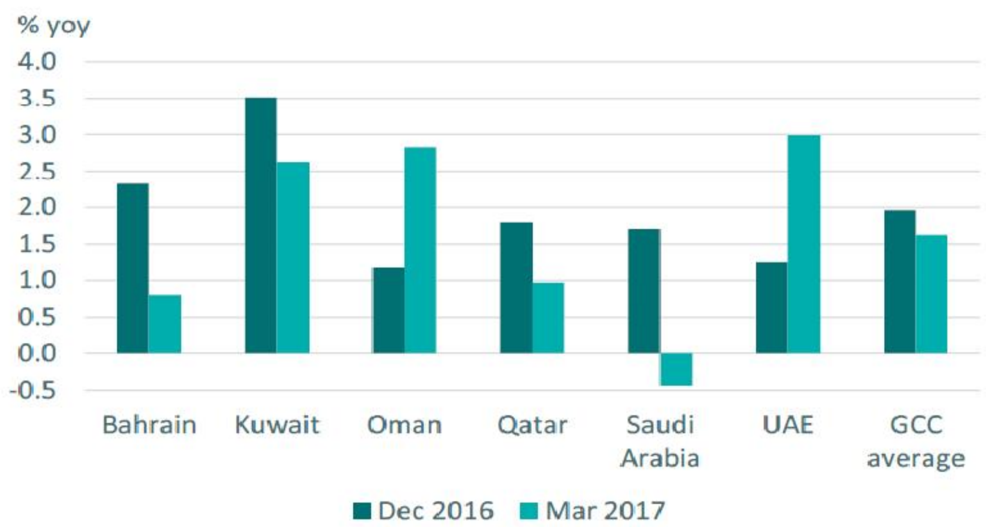
GDP Growth: GCC Countries



Source: World Bank Group

With reference to the State of Qatar, is going through an interesting financially period. With gas reserves exceeding 13% worldwide, it has tried to diversify its economy to other sectors such as manufacturing, construction, and financial services (CIA-The World Factbook, 2017). Being the upcoming venue of the football World Cup in 2022 has fired a fiscal imbalanced but also investments; before the hosting of the event, the total expenditures are calculated in US $200 billion for infrastructures, transports and services (World Bank, 2017). Last year's the moratorium on additional output from the North Field had as a result the reduction of growth to 2.2% in 2016, due to braking in hydrocarbon fields and incomplete non oil sector (Diagram 1.8). Inflation began to decline by around 1% in the first months of 2017, owing to moderate inflation in rents and dwellings and the declining price of food and leisure services (Diagram 1.9) (World Bank Group, 2017: 12-13). However, it is considered that the development would be strengthened about 3.3% from the *"Barzan gas project"* (it approved as agreement before North Field moratorium) which it will also balance somewhat the reduction in natural gas production. The reduction of the fiscal deficit is expected to be curtailed by the implementation of reforms in grants, with savings in current spending and with the introduction of VAT institution in 2018. With regard to investments relating to the organization of the World Cup, the growth will be stabilized gradually in 2019 almost at 2.5% (World Bank, 2017).

Diagram 1.9
GCC Countries Headline Inflation



Source: World Bank Group

One more important player in world oil production but also with a prominent role in OPEC is the Kingdom of Saudi Arabia which has the highest share of GPD in GCC as mentioned below. Possessing the 16% of world known petroleum reserves, the oil sector contributing the 87% of budget revenues, the 42% of GDP and the 90% of export earnings. The fact that is still being tested by low oil prices forced the government include plans to privatize and diversify their economy on the political agenda. The budget deficit in 2016 was estimated at 13.6% of GDP, which financed by domestic stocks and by sale of bonds (Diagram 1.7). As measures to resolve deficits, the government has also proceeded to the introduction of VAT and the decline of subsidies in electricity, water and on oil-based products. In addition, the government intends to privatize the petroleum stocks so as to increase revenues and stimulate external investment.

Besides the presence of the state which extends in too many economic activities in the Kingdom of Saudi Arabia, the last years some attempts have been made to attract private investors in the fields of education, health and tourism. At the same time, corresponding action have been taken to diversify their economy as mentioned above in the fields of power generation, telecommunications, natural gas exploration, and in petrochemical (CIA-The World Factbook, 2017). Nonetheless, GDP growth was particular low in 2016 with percentage at 1.4% compared with 2015 which it was at 4.1% (Diagram 1.8). Although oil production was at high levels in 2016, the non-oil sector was the cause that slowed down the economy as it developed only by 0.2% owing to fiscal cuts, the most rigid banking liquidity and from the obstructiveness in new licenses projects in construction sector. Inflation in 2016, even though it had a positive sign of more than 1.5%, has since 2017 started to decline by touching negative levels (Diagram 1.9). This downward trend is mainly due to lower food prices and to lower transport and rent inflation. (World Bank Group, 2017: 12). The non oil sector will show an increase in 2017, as fiscal consolidation measures facilitate development in this area, however, the total GDP is calculated at 0.6% (World Bank, 2017). Until 2020 the Kingdom of Saudi Arabia has as target "*The Balanced Budget 2020 Program*", a plan which seeks to balance the fiscal deficit and the rehabilitation of subsidies in combination with the amplify of social welfare and the diversification of the economy with aim of increasing revenues (World Bank Group, 2017: 14).

Finally, the UAE in the last 60 years, since the discovery of oil and onwards, has made tremendous progress as it has been transformed into a modern state with open economy, high standard of living, significant per capita income and a large trade surplus. The government has invested in the creation of new jobs, infrastructure and in liberalization utilities. Moreover, the free trade zones are an offerable land to foreign investors as they are allowed to have complete possession of their property with zero taxes (CIA-The World Factbook, 2017).

From 2010 until 2014 the overall GDP growth in UAE averaged at 5% with an obvious fall in 2016 around 2.3% (Diagram 1.8). A similar downward trend has also emerged in the hydrocarbon sector; from 4.6% in 2015 to 3% in 2016. Compared with other oil production years, growth will remain sluggish in 2017 to 2% due to OPEC decision limitation, whilst the investments in oilfield development foresee that it will have a positive effect on production since 2018. Concerning non oil sector, further development is a more optimistic future scenario as oil prices are expected to increase with a positive social and economic impact. Furthermore, the normalization of relations with Iran recommends a political move which it will improve trade momentum. The organization of the universal exposition of human ingenuity, -*the so called Expo 2020*- in Dubai and the corresponding development projects which have been created for that purpose, generate probabilities of economic stability and recovery (World Bank, 2017). As opposed to most of GCC member states, the inflation is increased by a combination of factors. On the one hand, there was a rise in prices in housing and utilities; on the other hand the international impact in fuel prices has as a result to push on adjustments and domestic prices, especially from the second half of 2015 where prices were released. At a local level, in Abu Dhabi, the increased charge in utilities and water from January of 2017 is another reason to explain the rise in inflation (Diagram 1.9) (World Bank Group, 2017: 13).

Despite the fact that the spending in UAE even in social welfare has decreased due to the low oil price, the surplus assets in the state investment funds have the potential to cover their deficits. Notwithstanding it has greatly diversified its economy from its natural resources, the UAE have been aiming for a further development in order to make the country an important commercial and tourist center, evolving their industry and through a better educational system to provide more opportunities for employment for its national residents both in the public but also with emphasis in the private sector (CIA-The World Factbook, 2017).

Nonetheless comparatively, based on World Bank data for 2016, the strongest economy in current US$ in GCC, is that of the Kingdom of Saudi Arabia as contributes 48% of total share of GDP. Second with obvious a difference is the UAE with 26%; it follows the State of Qatar with 11% and the Sate of Kuwait with three units less, in 8%, whereas the smallest contribution has the Sultanate of Oman and the Kingdom Bahrain with 5% and 2% respectively (World Bank, 2018).

1.3 MODERN POLITICAL STATUS

With the emergency of the modern state, the governance system in Persian Gulf countries and in Africa, remain in a traditional way of power. Specifically, in these counties prevails the traditional autocratic governance. The power is concentrated around a person who is not subject to legal constraints or is under pressure from an electoral process. Nevertheless, they do not contradict to the rules of their religious code, consequently they are not dominate complete arbitrary. The position in power stems from the hereditary right of the father to the firstborn son or the eldest relative. Even if a non-relative member takes over the power, the system of governance remains the same. In any case the ruler is responsible for his people. Concepts that apply to democratic regimes such as constitution, distinction of powers, rule of law, elections are not used in the Western sense of the terms as law is often exerted by the word of the ruler (Hague & Harrop, 2005: 106-107).

In general lines, the regime that prevails in GCC states is mainly monarchical and constitutional which expressed by a ruler who is the chief of the state, an appointed prime minister (sometimes is the ruler himself), a parliament as well as other institutional government organs.

The Kingdom of Bahrain

Since 1783, the Al Khalifah, is the ruling family in the Kingdom of Bahrain. The fact that Al Khalifah are Sunni whilst the most Bahrainis are Shia, oftentimes have put the governance of the country to the test. During the years there have been many political modernization efforts through the creation of constitution and national assemblies. However, the existence of strong social divisions, the continuing protest against the government and the adoption of different policies by successors had as a result many governmental institutions and initiatives to suspend their operations or to replace them whereas generally the country had suffer enough until the adoption of an applicable governance system (Crystal, 2017: 351-355).

In February 2002 a new constitution was adopted through a referendum, a new "*Action National Charter*" as it was called. Thus, the current political system is operating throw a National Assembly which is structured by an appointed Consultative Council and one elected Council of Representatives and deals mainly with economic and social issues. The Council of Representatives with forty seats has the typical advisory role in the legislative process. Along the Consultative Council they could pose questions to the Ministers but they could not be pose in a public dialogue. In addition, it has the right to bypass king's veto and to adopt legislation and to reject the confidence vote to the prime minister and to the ministers. Basic condition in both cases is the concentration of the two thirds of the majority; however this right has never been exercised. On the other hand the Consultative Council with more educated and pro-Western appointed executives is presented friendlier to the government and has increased its powers more than the elected body. It is actively involved in the legislative process while intervening in the annual budgetary after consultation with Council of Representatives, thus having the potential to hinder the latter's field of action. A very important innovation both for the Consultative Council but also for all the institutional bodies among GCC countries is that there is no limitation on the positions that women will occupy. Nonetheless, the king could modify the constitution and stops the functioning of the Council of Representatives.

Since 2002 elections are scheduled to take place every four years free and open but every time tensions are caused between government and Shia population who had declared their desire at the outset that the National Assembly should be composed of forty members for each body, both for the Consultative Council and for the Council of Representatives. Only political societies and other associations are allowed to participate as political parties are banned (Eurasia Review, 2011).

The State of Kuwait

From the eighteenth century the position of the ruler is transferred hereditarily among the members of Al Sabah family. The constitution of the State of Kuwait is dated from 1962 and is the oldest in the region generally and in the Gulf specifically; one year later it institutionalized an elected unicameral National Assembly which consists of fifty members every four years through free and fair elections (Crystal, 2017: 345). The emir as the chief of the state is the head of legislative, executive and judiciary power and rules through the Cabinet (State of Kuwait, 2017).

The State of Kuwait is governed by a group of public officials and a council the members of which came from the close family circle. The last are also leading the sovereign ministries such as defense or foreign affairs where both ruled institutions overlap. However, these ministers have even more extensive competences as they reside in a larger family council which decides for wide ranging political issues whereas they also have speech even for the succession. Political expression through political parties is not allowed notwithstanding parliamentary blocks (tribal, ideological) are not prohibited. Although the assembly has limited capabilities, its participation in the adoption of state policies and guidelines is not negligible; it participates actively in the formulation of government policies whereas it has the right to challenge them. Furthermore, the assembly has the privilege to demand vote of confidence for individual ministers or to interpellate them (Crystal, 2017: 345-347). No decree applies if it does not have the emir's consent. All the laws approved by the assembly must have the emir's signature within one month otherwise apply the same as those signed. If the legislations are not signed, they return back to the assembly and they are approved and applied without the emir's signature (State of Kuwait, 2017).

All citizens who have completed twenty one year's derive their origin in the State of Kuwait from 1921 have the right to vote or have naturalized at least twenty year's abidance have the right to participate in the electoral process. Kuwaiti women could to vote since 2005 while police and military are excluded from the suffrage. Cabinet ministers could also vote and one of them is supposed to be elected. The last electoral law introduced unilaterally from the emir in June 2012 and each voter has to vote one candidate from five districts contrariwise with the previous law which predicted four votes (Crystal, 2017: 345-346).

The Sultanate of Oman

The ruling family in the Sultanate of Oman is the genus of Al Bu Sa'id since eighteenth century and as result holds, to some degree, significant governmental positions. The sultan is the chief of the state and the head of the government. Based on the modern Basic Statute of the State which was institutionalized by the sultan himself in 1996 it is essentially composed the constitution of the sultanate. The Basic Statute is defined clearly the sultan's sovereignty as the head of the state as well as that he is being responsible for the law enforcement and the appointment of the judicial authorities. In addition, it provides the principles of the political system of the country as and a whole range of civil protection and rights for its citizens.

A few decades ago it was surrounded by an appointed Consultative Council, an institutional body which existed since 1981 with advisory role in economic and social policies. With sultan's command in 1990 the Consultative Council was replaced by the Consultative Assembly. This change was made in order to enhance popular participation and to create an information channel between citizens and ministries. Additionally, it has the right to reviewing issues of economic and social legislation which are products of the corresponding ministries and to call on ministers for clarification whereas they have no jurisdiction over matters relating to external affairs, finance, security and defense. But in October of 2011 and as the outflow of the Arab Spring (a phenomenon that has led to reforms in the GCC states in general) a royal decree of the sultan, reviewed the Basic Statute of the State, and strengthened the Consultative Assembly given that the draft law are referred to the latter obligatory by the Council of Ministers (Crystal, 2017: 370-371).

Thus the legislature, the Council of Oman, has a bilateral structure: the upper house or otherwise the Council of State with appointed members and a lower house or the Consultative Assembly with eighty three elected members. Responsible for choosing them are in the first stage the regional representatives from fifty nine districts who sent three names of three people including women (from 1994); in second stage are re-audited by a cabinet committee; lastly, promoted to the sultan and final choice made (Sultanate of Oman, 2005). From 1997 progressive parliamentary elections are being held by the government and from 2003 onwards, all citizens who have reached the age of twenty one are eligible to participate (the previous years the threshold for participation was thirty years). The two last elections took place in 2007 and 2011. The elective members serve their office for three years with consecutive re-election right. As a consequence of the above, political parties are not permitted, nevertheless some associations around the sphere of influence of the Chamber of Commerce and Industry are not prohibited (Crystal, 2017: 371-372).

The State of Qatar

From the nineteenth century Qatar's ruling has been shared among members of Al Thani family. The primacy has the ruling family whereas there are members that occupy most ministerial posts. The ruler's position is exclusively hereditary to the above family and provided for constitutionally. The ruling is family surrounded by an auxiliary body from appointed and elected members; since 2000 with emir's initiative, the Council of the Ruling Family has officially been operating, consisting of thirteen family members (Crystal, 2017: 357).

Emir has the exclusive right to appoint the government and to accept their removal voluntarily or not. However, the powers are distinct; as defined in the Constitution, Emir and the Heir Apparent are responsible for the exercise of executive power in which the Council of Minister has auxiliary role. The legislative authority is carried out under the supervision of the Advisory Council whereas the judicial is exercised by the courts and court judgments are announced in the name of the emir (Government of Qatar, 2017).

But the two main differences in its political system comparatively with the rest GCC countries focus on another point. Although the emir is the chief of the state, the fact that they are too many family members who have increased initiatives and freedoms in their government fiefdoms, creating cohesion issues as many times they get to be different so as a result there is no stable political line. Secondly and as extension of the first, there is instability intra the ruling family after the independence since there were many reversals in the emir's position.

In 2005 the new constitution began to apply, after a referendum that took place two years ago with great public acceptance, replacing the provisional constitution of the 1970. In addition, it provided the creation of a partially elected legislative body whereas predicted the institutional protection of social and political rights.[3] Elections are free only at a local government level from 1999 with men and women to have the right to be candidates and voters Nonetheless the creation of political parties, public consultations and concentrations is banned as rarely the government has been issued permits for public gatherings or other types of social expression and representation. The only right of mass expression that exists since 2004 is the creation of trade unions with the right of collective bargaining and strike (Crystal, 2017: 358-359).

The Kingdom of Saudi Arabia

As the other GCC states, the Kingdom of Saudi Arabia is a theocratic country which is governed by its religious traditions and laws that are considered superior even to the hegemony of the king who is the chief of the state and the head of the government. For this reason has to act wisely and not arbitrarily and as the chief of consensus to consult with the decision-makers so that he to form national policy guidelines. The ruling family is the Al Saud; however the choice of each subsequent monarch is based typically on a religious institution, composed of elders of the dominant family, religious leaders and other eminent families but essentially no king can perform his duties without the approval and support of the royal family.

[3] These elections despite they are programmed at different times, they have not been take place.

The progress made by the kingdom due to oil revenues also leads to the need for greater consultation and consensus, capable of legitimizing public policy. Thus, the king on March 1 in 1992 decided the creation of an appointed Consultative Assembly, as political parties are banned, with members of the scientific and epistemic community from all over the country and principally from the royal family and other eminent families. The Consultative Assembly took up its duties and started to carry out its work in December 1993 and had sixty members, a number that has been revised over the years and from 2015 lists one hundred and fifty seven members.[4] Women are included since 2013 with participation percentage at least 20%. Their tenure is for four years and their meetings are in camera at least every two weeks while its composition is relatively young in relation to the country's high leadership positions (Maisel, 2017: 324-327).

The main aim is to review, evaluate and make proposals for general policies at internal and external level while in specific subjects it provides a general economic and social policy plan. Moreover, the Consultative Assembly checks Ministers reports and other governmental competent bodies, which provides protection on the latter side so that the directions are controlled, protected, and achieve greater homogeneity in the different requirements. All this bureaucratic process is then transferred to the Prime Minister for implementation or review. From his side the Prime Minister once a year must- as the Royal Court defined- hold an informative talk before the council for the internal and external policies of the country (Kingdom of Saudi Arabia-Ministry of Foreign Affairs, 2017).

Efforts for greater political participation took place in 2005, when the king Abdallah took over the power. Even before taking the throne and showing respect for the request of a group of intellectuals, he introduced in 2003 the National Dialogue, a forum with the aim of creating a dialogue between different interest groups on issues related to social and future challenges. Another important measure of political process and evolution during his term of office was the right to elections and at a local level. Since 2005 he has been progressively granted the right of the half members of the municipal councils to be elected in this way. All these reforms were maintained by the king Salman whilst for women the right to participate in the electoral process as voters in municipal elections was given in August of 2015 (Maisel, 2017: 327).

[4] In 1997 were ninety members and in 2005 were one hundred and fifty members.

The United Arab Emirates

The UAE is a federal state which consists of seven emirates, the Abu Dhabi, Dubai, Ajman, Fujayrah, Sharjah, Ras al-Khaymah and Umm al-Qaywayn. Abu Dhabi is the largest and wealthiest emirate, having the most stocks in hydrocarbons, financially contributing the greatest amount of federation’s operations and has been designated as the capital city. Each state is ruled by one family and as an extension these seven sovereign families ruled the federation of the UAE (Crystal, 2017: 360-361, 364-365).

Thus, the political system of UAE expressed through a federal constitution which established in 1971. The constitution determines the smooth of the emirates into a federation status which is governed by federal authorities. Barring the President and his deputy whose the speech extends across the government spectrum, the Federal Judiciary is divided into the Federal Supreme which is the highest judicial authority and the local judicial departments, the Council of the Ministers or Cabinet which lists by direct assignment thirty one members, nine of whom are women, and other federal government authorities; particular interest presents the Federal Supreme Council (FSC) and the Federal National Council (FNC) (Government.ae, 2017).

The FSC is the competent body of choice for the president of the federation and his term of office lasts five years. The FSC consist of seven members that four times a year and is essentially the bureaucratic core of the federal, as it forms and controls its political directions, approves the laws, the annual budget and the appointment of persons in important position while it is also the responsible body for the ratification of international treaties. In the decision-making process, the FSC has adopted the simple majority vote. The only peculiarity that exists is that on vital issues, Abu Dhabi and Dubai due to greater political power have the right to block the resolution by exercising veto, a privilege that the rest emirates do not have and is a point of friction.

One more institutional body with assistant role in the federal governance is the FNC which is appointed by direct assignment. Despite the fact that it has not extended competences, it accepts the yearly budget and prepares some legislative texts. Notwithstanding, the most important role of the FNC is that it operates the meeting place where the government discuss the guidelines and the policies of the federation; this area of exchange of views is momentous since there is no other communication channel due to the absence of parties, trade unions or other clubs (are considered illegal). The seats in FNC are calculated based on population criteria: so Abu Dhabi and Dubai are entitled eight seats, Ras al-Khaymah and Sharjah six seats and four seats each of the rest three emirates. In 2006 the government gave voting permission to an appointed group of fewer than seven thousand Emiratis so that through electoral process the half members of FNC could be chosen.

Finally, the legal system is based principally on religious texts, but the federation has adopted some Western legal standards. On the other hand, there are areas in which complete unification does not exists and each emirate acts under a local regime, autonomy which is mainly observed in police forces, intelligence services and even the army does not work fully under a common defensive umbrella (Crystal, 2017: 364-367).

1.4 OTHER CHARACTERISTICS: DEMOGRAPHIC DATA

Admittedly, despite the cultural, economical and political homogeneity, the largest variations occur in geographic and population characteristics (Map 1.1). The Kingdom of Saudi Arabia has the lion's share in the Arabian Peninsula as it covers about 84% of the total area among GCC states. The Sultanate of Oman has the second position with obvious differences as its square meters covers the 12%; the 3% has the territory of the UAE while the 1% approaches all the rest members states (World Atlas, 2017).

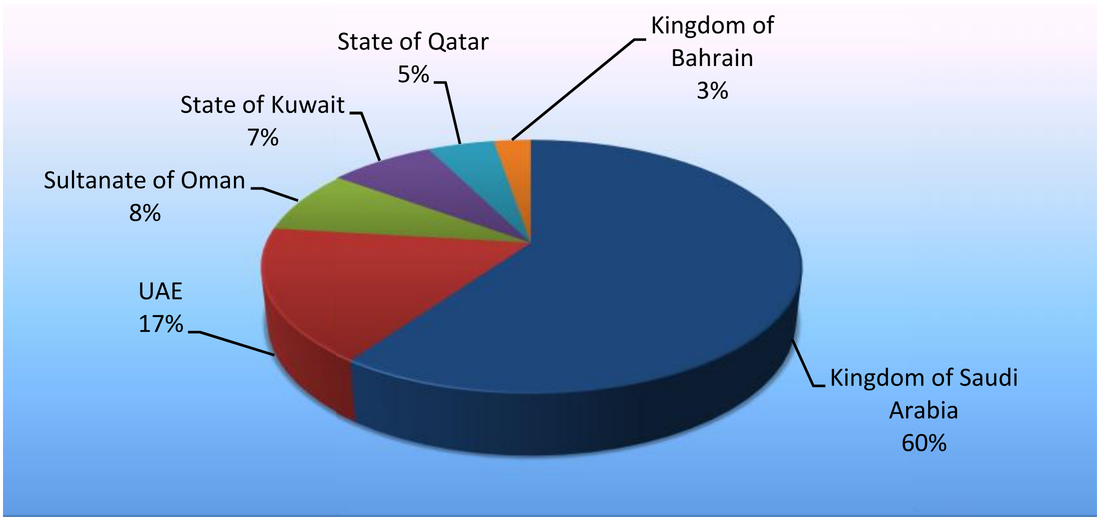
Map 1.1
Gulf Cooperation Council States

Source: Map of World

Corresponding differences also occurred in the population percentages with slightly smaller percentages in relation of their total area (Chart 1.1). The Kingdom of

Saudi Arabia occupying again the top position with 60%, with great discrepancy the UAE represents the 17% of the total population in GCC states, while the other member states shared one digit rates.

Chart 1.1
% Share of Total Population by State



Source: World Bank (est. 2016)

On the other hand, GCC member states also consist of a large percentage of a non-national population (Table 1.1). As a popular and attractive area for foreign investments but also as an international tourist destination, it has a significant number of outsider manpower, immigrants, professionals who spend long periods of time there, leisure travelers and permanent residents who may not have been granted citizenship and as a result these countries are hosting population groups that increase the total percentage of each country by large proportions with a continuous raise.

Table 1.1
% Non-national Population

Country	Date/Period	Non-nationals
Kingdom of Bahrain	mid-2016	53.3%
State of Kuwait	31 December 2016	69.7%
Sultanate of Oman	7 April 2017	45.9%
State of Qatar	April 2010	85.7%
Kingdom of Saudi Arabia	May 2016	36.8%
UAE	mid-2010	88.5%

Source: Gulf Labor Markets and Migration

Finally, all the GCC member states have steadily high GDP purchasing power parity (PPP) value in final goods and services at a global level (Table 1.2). For instance the State of Qatar for 2016 is internationally first in value of GDP per capita

Table 1.2
GDP Per Capita (PPP) in 2016 International Dollars

	2014	2015	2016
Kingdom of Bahrain	48.660	49.610	50.720
State of Kuwait	70.930	71.190	71.880
Sultanate of Oman	45.220	46.850	46.070
State of Qatar	136.410	129.810	125.160
Kingdom of Saudi Arabia	52.640	54.960	55.330
UAE	65.880	67.130	68.090

Source: International Monetary Fund

PPP between 189 countries who are members in International Monetary Fund, whereas the Sultanate of Oman is the "weakest" among GCC member states occupying the twenty-fifth position on the same measurement scale; the State of Kuwait is sixth, the UAE is ninth, the Kingdom of Saudi Arabia is fourteenth and two places below is the Kingdom of Bahrain (International Monetary Fund, 2017).[5] The exploitation of their natural resources is one of the most important factors interpreting these indicators and their high standard of living. The diversifying process of their economies is likely to enhance the GCC member states positive in their general economy whilst in GDP per capita PPP at least for the near future estimates show that they will move in positions and values without particular upward or downward fluctuations.

[5] Similar measurements have also been made by other international organizations such as CIA's World Factbook and the World Bank. Indicatively is mentioned the study from the International Monetary Fund. All the corresponding measurements between organizations appear to have small deviations in their values.

"Healthy discontent is the prelude to progress".
Mahatma Gandhi, Indian politician and thinker

CHAPTER 2
THE CHRONICLE OF COOPERATION: INSTITUTIONAL FRAMEWORK BETWEEN EU-GCC RELATIONS

2.1 HISTORICAL BACKROUND

Although the relations between EU and GCC are relatively recent at a regional level of cooperation, they are particularly interesting for both economic and political reasons. Their multilevel contacts are a reference point as they are two transnational institutions of nodal geographic location, with constant evolution and presence on the international scene. Their partnership despite that are gradually developing, appears many signs of stagnation while several times it was considered to have failed to bridge a functional relationship.

The Gulf region was not particular known to Europe, with the exception of the United Kingdom (UK) due to its colonial past. Through naval campaigns and various treaties to protect the ships and interests of British Indian colonies, the Pax Britannica had been in effect in the area since 1820. Even the end of its occupation in India in 1947 did not signaled its simultaneous military departure from the Persian Gulf as it was depended on petrol findings (just like other European countries), so it had been present in the area, until the gradual removal of military protection which the region was under until 1971 (Onley, 2009: 1-5,11). Although nowadays UK does not constitute a well-aimed example because of *Brexit*, however, its experience in the Arabian Peninsula had been familiarization element in an area of strategic importance both economically and politically.

Since the 1970s, the USA appears as a guarantor of security, mainly for the protection of oil-producing countries and other interests, such as the stability and political reforms both in the interior of the countries and in their external relations in the wider region of the Gulf due to the regime of insecurity triggered over time in the area in which Iran and Iraq have played a leading role[6], with the United States changing its political alliance accordingly. This kind of relationship had as a result military agreements and hence the continuous access to the area and the presence of

[6] Specifically it is about the Iranian revolution in 1979 and the war that followed a year later between Iran and Iraq, two events of nodal importance which urge the creation of GCC.

American military bases in the GCC, especially after the Iraqi invasion of the Sate of Kuwait in 1990. The only country differentiated in this kind of cooperation is the Kingdom of Saudi Arabia which, due to reactions from Islamic groups, led the United States to abandon this policy in 2003. Therefore, in the first years, Europe did not adopt a special cooperative initiative apart from some transactions regarding military equipment, infrastructure projects and trade (Echagüe, 2007: 1-2).

The Euro-Arab dialogue, a communication channel which opened in 1974 due to the oil embargo from the Gulf States and the Arab-Israeli conflict in 1973, made minimal progress until its dissolution in 1989. According to Ayadi & Gadi the reason for the failure of the Euro-Arab dialogue was twofold: *Firstly, Arab countries withdrew after the signature of the Camp David Accords in 1979. Secondly, despite French tentative attempts to revive the process, the Gulf War and inter-Arab divisions de facto collapsed it*" (2014: 52). Nonetheless, the Arab embargo made the European Economic Community (EEC)[7] aware of the importance of the Gulf region (and the Mediterranean) but also launched the formation of a policy agenda that would involve a more substantial development in their relations. Thus once more, the emergence of a crisis triggered the creation of bilateral contacts at a more synchronized level in Euro-Middle Eastern relations, which the previous years were more rudimentary and weakness reinforcing the effort of a partnership (Nonneman, 2006: 59-60).

2.2 THE BEGINNING OF AN ASPIRING (!) COLLABORATION

The relations between EU and GCC have been progressively institutionalized since the early 1980s. Admittedly, the principle of their cooperation began in a transitional period within the two transnational associations, as in the broader area they were experiencing a period of restoration and insecurity. On the one hand, the European community, starting more vigorously its presence in the *Cold War* (1947-1991) and moving forward to its integration and to the treaty for EU, had to face, until the late 1980s the turbulence in Eastern Europe, as communism was considered a major threat that could cause instability in the area. On the other hand, the situation in the Gulf was equally worrying. The war between neighboring states, and especially between Iran and Iraq (1980-1988), could not be passed unnoticed as it did not promote feelings of safety within the GCC states.

[7] It was renamed to EU after Maastricht Treaty in 1992.

Notwithstanding, almost immediately after the establishment of the GCC, and on a proposal made by the German Foreign Minister, the EEC began to gradually establish its relations with the Gulf countries, as there was a slowdown in the Euro-Arab dialogue (Koch, 2014: 4-5). The first step was made in 1985, through a joint ministerial meeting between both sides, which led to further negotiations until the final drafting and ratification of the CA in June that was in force in February 1989. The CA provided the institutional and legal status of the EU-GCC relations as well as bridging the two parties in a partnership that affected a wide range of their collaboration (Kostadinova, 2013: 1). In particular as referred to in Article 1 of the CA the main targets of their collaboration are:

- *"to strengthen relations between the European Economic Community, on the one hand, and the GCC countries, on the other, by placing them in an institutional and contractual framework;*
- *to broaden and consolidate their economic and technical cooperation relations and also cooperation in energy, industry, trade and services, agriculture, fisheries, investment, science, technology and environment, on mutually advantageous terms, taking into account the differences in levels of development of the parties;*
- *to help strengthen the process of economic development and diversification of the GCC countries and so to reinforce the role of the GCC in contributing to peace and stability in the region".*

The remaining 25 articles clarify their wide-ranging cooperation and are divided into three different thematic categories which concerns: a) economic cooperation (Art. 2-10), b) trade (Art. 11) and c) general and final provisions (Art. 12-26).[8]

Agreeing on a piece of collaboration that touches several productive sectors, their economic cooperation was foreseen around in fields of common interest such as industry, energy, trade, and investments, agriculture, agri-industry, fisheries and environment and on technical-science topics (i.e. surveys, transfer and development of technology) (Charter of EU-GCC Cooperation Agreement). The introduction of a rather extensive economic institutional framework automatically created interdependence relationships and reinforced the political dialogue while at the same time tried to strengthen and improve their commercial and investment transactions,

[8] For further information: *Charter of EU-GCC Cooperation Agreement*-available in the website: http://trade.ec.europa.eu/doclib/docs/2008/september/tradoc_140300.pdf.

providing that way the appropriate factors to materialize and to further promote their mutual ambitious goals.

Quite remarkable was the agreement on the opening of negotiations with the aim of forming a FTA applied to their trade contacts in Art. 11. Since the beginning and throughout the years, it had been discussed that the achievement of this aim should be in the first place, governed by mutual rules of reciprocity in the whole spectrum of their exchanges.

Lastly, concerning the general and final provisions one of the most significant points is that the EU and GCC fortified institutionally annual Joint Councils-Ministerial Meetings of foreign ministers as well as joint committees between senior officers. The purpose of this prospect was the establishment of a greater dialogue portal which would facilitate the implementation of all the aforementioned areas (European External Action Service, 2017). Joint/ministerial meetings have been taking place since 1989 with great consistency, even on the sidelines of the UN General Assemblies, notwithstanding the inertia periods in their relations as we will see below (Koch, 2014: 5).

2.3 INITIATIVES AND STAGNATIONS DURING A DORMANT PERIOD

Despite the ambitious institutional framework signed in 1988 between the EU and the GCC, the 1990s cannot be regarded as a period of particular mobility and effective action in their bilateral contacts. In a constantly changing environment, the international impact affected each involved area differently whereas at the same time new needs and strategies that emerged slowed down or expedited agreements and cooperation's. In the case in question, the bidirectional regional integration seemed not to be a simultaneous objective to be fulfilled.

In 1990, about a year after the validation of the CA, EU and GCC began negotiations for the FTA with a view to strengthening the economic and commercial transactions at interregional level (Kostadinova, 2013: 3). From its side the EU aims to ensure an important trading partner to cover its energy needs and to gain influence in a strategic area. On the other hand, the GCC counties wanted to export their petroleum products to the European market and to achieve favorable trade regulations similar to those that EU had agreed with Israel (Echagüe, 2007: 2). The attraction of European investors would help to develop and diversify their economy but also approach an international partner capable of contributing to the security in the region

(Colombo & Commiteri, 2014: 20). We should not forget that the negotiations started the same year with the First Gulf War (2 August 1990-28 February 1991), and international security alliances were something more than necessary. In spite of that, the USA once again played the role of a security partner, until at least the terrorist attacks on 11th September 2001, where this presence needed a redefinition (Bianco, 2014: 2). At the same time, the Gulf crisis in combination with the end of the *Cold War*, other revolutions and civil wars in the wider region of Europe, offered the European officers the occasion to realize the inadequacy of the *European Political Cooperation* and to proceed with its immediate restructuring. Thus after the Maastricht Treaty, it has evolved to Common Foreign and Security Policy (CFSP), also carrying out the corresponding reforms in the decision-making process and in the relevant institutional bodies for the smoothing fulfillment of its objectives (Hix, 2009: 517-518).

Furthermore, the EU always having high on its foreign policy agenda the deployment of substantial dialogue with third countries and transnational institutions, from the early 1990s launched a series of regional policies as well as improvements to the already existing sub regional agreements in which also included the GCC. Such agreements are more specifically the *Renewed Mediterranean Policy* (RMP) established in December of 1990 and the *Euro-Mediterranean Partnership* (EMP) which agreed with the Barcelona Declaration in 1995 (Nonneman, 2006: 60) and denatured and evolved in the *Union for the Mediterranean* in 2008 (Koch, 2014: 3). Regarding the RMP and the EMP, they were two policies which emphasized the development of relations with parts of the Middle East and North Africa (MENA) countries. Although GCC was approaching as a separate party in the above-mentioned regional policies, it was given a good motive for communication, mainly with EMP, with the existence of common initiatives which the EU wanted to promote in the wider region (Nonneman, 2006: 60).

In particular, the RMP mainly concerned the southern Mediterranean countries and included increasing of subsidies and distributed funds with the participation of both the public and private sectors. Additional, it target at the promotion of decentralized cooperation, that is a cooperation beyond central institutional mechanisms which includes individual initiatives and the involvement of civil society, as well as policies relating to democratization, the protection of human rights and the environment (Knoops, 2011: 5-6). Notwithstanding the dual nature of the

Mediterranean with the intense problems that accompany it, such as the gap between the North and the South or the presence of “democratic deficit”, has led to non-encouraging results. The institutional weakness and the absence of necessary resources put an end to this ambitious project. The RMP was abandoned in 1995 leading to the EMP which foresaw the enacting of a three aspects of cooperation with clear correlation and interdependence. Specifically the three pillars of its actions concerned: i) political and security issues, with as the main objective the enhancing of political dialogue, regional stability, peacekeeping policies, political and social reforms and respect to human rights and freedoms; ii) economic and trade relations, aiming at the liberalization and the development of the economy, the open market and investments, the creation of a trade agreement between EU and southern and eastern Mediterranean partners and improvement of living standards; and, iii) social and cultural collaboration leading to mutual understanding through the developing of intercultural dialogue, the media, educational programs and the establishment of a “decentralized cooperation”, i.e. cooperation with less governmental intervention and more individual initiative and involvement of civil society. Finally, were added topics related to the first two areas and issues related to the fight against corruption, the strengthening of the rule of law, the improvement of health care and generally social recovery (Simiti, 2008: 13-18).

One of the outcomes of the EMP was the decision to adopt similar policy pillars[9] as well as with the GCC and therefore a series of official talks, ministerial meetings and common political (non-domestic) agreements emerged (Nonneman, 2006: 60-61). Particular attention was given to the third pillar by emphasizing intercultural contacts of the civil society and to the “decentralized cooperation”. But unfortunately the results of this initiative were not very encouraging. In many Arab countries, despite the progress made in recent years, social freedoms are not applied in the broad sense of the term. The development of a cultural link with the immense presence of civil society would also have political implications as the state controls social life as well. Automatically such a channel of intercultural communication becomes socially impossible. Regarding the idea of a “decentralized cooperation”, it was promoted at a first stage, through a three-year pilot plan around the sectors of media, higher education and business, with common denominator the co-finance to

[9] In EMP were adjustments related to illegal migratory flows, although that was an issue that concerned more the MENA region than the GCC countries.

cross all areas. The future progress, albeit, was almost negligible with the exception of some small steps at a transitional level in the sector of education which concerns the promotion of Gulf studies in Europe and European studies in Gulf. Until 2002 all actions regarding the three above areas have ceased mainly on the part of European Commission which focused on the control and correction of mistaken financial moves made by Union partners and as a result the project has definitely failed (Kostadinova, 2013: 7). Initially, the only positive element among all these bilateral contacts and as a result of the terrorist attacks of 9/11 and subsequent instability due to the armed conflicts in Iraq and Afghanistan was the proposal to set up a permanent delegation of EU in the Gulf for the GCC member states (Nonneman, 2006: 61-62). Although several years had passed since the initial negotiations, the European delegation started its operation in 2004, in Riyadh, representing the EU to the GCC Secretariat and five of the six countries. From 2013 the delegation also opened to the UAE as it was the only country not participating in this institutionalized diplomatic mission (European External Action Service, 2016).

At the same time, during the 1990s but also afterwards, the negotiations for the FTA, despite the existence of diffuse interests, continued. From the outset, the agreement foresaw the gradual liberalization of markets and services at a mutual and regional level in order to ensure equal opportunities of access. Additional, all contacts will be carried out under a common trade regime in terms of quantitative and qualitative features such as competition, intellectual property rights, place of origin and the settlement of disputes (Colombo & Commiteri, 2014: 20). However, as will be mentioned in the next section and despite the efforts that have been made, the disagreements and obstacles appeared to be more, so that this region to region FTA could not to be a realistic scenario able to succeed.

2.4 PARTNERSHIP IN A NEW ERA OF CHALLENGES

The first decade between EU-GCC relations closed without any particular success. It was generally accepted that the 1988 Cooperation Agreement failed to fulfill its aims and that the two sides did not succeed in bridging their relations even in common vital areas. However, a new period of bilateral contacts has been launched since 2000, as impact of international developments that has given them the opportunity to take new initiatives with the aim of creating new bases for cooperation.

Despite the fact that the eyes of the international scene had turned to the region since 2001 due to the terrorist attacks of 9/11 and even though that the European Commission launched a new round of negotiations with GCC, also adding to the agenda the issue of the FTA, the landmark year that blew a new wind in the pursuit of foreign policy, was 2003. In that year the European Commission added to the initially agenda of 2001 topics which concern the cooperation in the fight against terrorism (Nonneman, 2006: 62). Furthermore a series of events and specifically the announcement of the GCC that had planned to proceed with the implementation of a custom union in its internal - a prerequisite that the EU had set since the early 1990s - signaled new data for the completion of the FTA[10]. Equally important is the economic development of the GCC that has risen global interest and the international insecurity caused by the war in Iraq, creates new questioning and therefore new conditions in the reaction both of the EU and GCC (Koch, 2014: 6).

Since the end of 2003, the EU has moved on to a series of new policies aimed at redefining relations with the Mediterranean and Arab League countries. In December 2003, policy documents issued by the European Commission and the High Representative for the CFSP, underlined the need to deepen cooperation with the Mediterranean countries, integrating in the same context the GCC. Additional, the same month in a new European Security Strategy, there has been talks of creating such links generally with the Arabian Peninsula. Both of them were announced in December of 2003. Few months later, in June of 2004, all these documents implemented through the *Strategic Partnership with the Mediterranean and the Middle East*, in which incorporate policies related to the Gulf countries taking into account the particular social features that surround them. At the same time, the EU committed that it will proceed to an evaluation and adaption of individual non-regional policies, supporting reforms at economic and political level to those Gulf countries that desired it (Echagüe, 2007: 3). In general terms, it is a document which did not deviate in particular from those envisaged in the 1995 agreement (Koch, 2014: 6). Nonetheless, the intensity in this *Strategic Partnership* reduced due to the new U.S. *Greater Middle East Initiative* in 2003 and 2004 which limited European Union action in the region and put it in a parallel supporting role for the U.S. Besides, the *Strategic Partnership* in its entirety made minimum progress without this being

[10] In which includes the desire for the creation of a monetary union by the end of the decade.

exclusively due to external interventions. Barring the institutional differences between the EU and the GCC, the disagreements between the EU member states with regard to the directions of the *Strategic Partnership* was also a delaying factor. For instance, some states such as France and Germany, did not want to identify the *Strategic Partnership* with the USA inspirations for the creation of a regional security umbrella while other countries such as Spain at first claimed that the policies on the Gulf should not overlap with the initiatives taken in the Mediterranean, which were even more immediate. However, by the end of 2005 Spain changed positions starting that the policies concerning the Gulf could run alongside with the Mediterranean issues with a lot of benefits for Europe. It is likely that this shift was made as a precaution since the "new oil paradigm" in 2003 and 2004 forecasted long term upward increases in oil prices and a contraction of the corresponding market. Historically, international developments and political events that affect the region such as the oil crises of 1973 and 1979, the armed clashes (Iranian revolution, Iran-Iraq war, Kuwait crisis) and more recently the terrorist attacks of 9/11, have as a result apart from political instability, ups and downs in the price of oil (Nonneman, 2006: 62-63). At the Joint EU-GCC Council in 2004, it was decided to engage with specific sectors of CA taking into consideration that simultaneous contacts in multiple domains cause delays and barriers which overall affect the cooperation. Initially focused on areas such as business and energy transactions; later more stringent conditions on human rights and migration were added in order to smoothly negotiate for the FTA (Youngs and Echagüe, 2007:31).

The international upheavals both at political and economic level, starting from 2001 and the tragic events of 9/11 until the war of Iraq two years later, pushed the GCC member-states to exercise a more specific and targeted foreign policy. From an economic point of view, this turn was created as aftereffect of globalization and because of the high oil prices since 2002, which allowed many areas of the Gulf such as the Dubai, to be transformed into prominent commercial and investment centers. This economic recovery appeared to be of use in the European continent, not just because of the business opportunities that allowed European companies to operate in the area, but also because the sovereign wealth funds of the Gulf was a major liquidation aid, especially during the first years of the financial crisis as the liquidation of European banks was covered by one third with these funds. As far as the political developments are concerned, the emergence of the USA as a regional power that monopolizes the security regime in the region, which was re-verified afresh with the invasion in Iraq, but also with the failure of the USA to create a policy capable of restoring a state of equilibrium in the aftermath of war, raised concerns within the GCC, as they became receivers of a crisis that they had not caused and they seemed unable to manage. The religious confrontations of Iraq and the corresponding fear of the propagation of fundamentalist conflicts as well as the prospect of a vulnerable Iraq moving into the sphere of influence of Iran, was two variables that alarmed the GCC. The result of all these situations and conditions, was the undertaking of a foreign policy capable of covering the gaps of concern left by the US political decisions and as a consequence the adoption of independent politics away from the geostrategic choices of the USA.

Europe for the GCC appeared to be a partner able to mitigate the US monopoly of the region (certainly not in terms of defense/security), while the war in Iraq evinced for one more time in Brussels the inadequate exercise of its foreign policy in the Gulf, urging them to undertake new balancing initiatives in the region (Koch, 2014: 7-8). On the other hand, the continuous emergence of neo-functional elements within the EU's internal institutional framework has also influenced the pursuit of foreign policy, resulting in a European foreign and security policy in the Gulf that have not always been exercised through a single scheme. Prior to the Treaty of Lisbon in December 2009, relations between the EU and the GCC were either established or broken off according to the intentions of the rotating presidency. Since the signing of the Treaty, relations of this kind have entered into the portfolio of the European External Action Service (Colombo & Commiteri, 2014: 23). But in any case, the international challenges have brought the EU and the GCC closer to a relationship of interdependence, with each side, albeit, aiming to promote different interests. Moreover, the initial ascertainments of EU owing to the fragile regime in the Middle East were once again verified: the Gulf is an area of global geostrategic and geo-economical importance and the relations with the GCC should be closer and more efficient, as the latter is an international body capable of playing a leading role in conflict resolution in the wider MENA region[11], a strategic position that the organization itself wanted to develop (Koch, 2014: 8).

[11] These guidelines were also expressed in a key report of the European Parliament in March 2011.

At the same time, the discussions on the launch of a fully operational FTA continued. In December 2001 the GCC member states agreed to launch a custom in which envisaged a common external tariff which included two categories of products: those allowed to have free commercial movement and those subject to a 5% duty. As a deadline of the start of the implementation of the custom union was the 1st December of 2003 (Anaam Hashmi et al., 2014: 114). Surely such a move was considered a positive step from the EU side for the completion of the FTA, however, none of this signifies the simultaneous establishment of the latter, were still pending issues related to liberalization and internal production and pricing of the energy market as well as the liberalization of services (Nonneman, 2006: 64). Although the negotiations concerned an economic-commercial agreement, the causes that initially interrupted them were of a political nature. The talks were not governed by reciprocal positions, as a result the GCC countries were being called up in more and more concessions. Several scholars have argued that the benefits that the EU was claiming from this agreement were more political than economic, given the fact that through the trade negotiations they demanded reform such as democratization, protection and promotion of fundamental human rights and generally issues that would make the region geopolitical safe and would enhance the EU's influence on the Arabian Peninsula (Anaam Hashmi et al., 2014: 114-115). Nevertheless, it has also been observed that the EU has consistently been in agreements with other partners to include issues relating to the protection of human rights and the promotion of democratic governance systems capable of coping with domestic social problems (Nonneman, 2006: 64). Despite the fact that the FTA negotiations gradually continued, it is not accidental that the GCC had chosen unilaterally to interrupt them and especially in December of 2008, at a time i.e., that coincided with the onset of the economic recession in Europe. During this economic crisis in Europe the Gulf countries, as already mentioned, played a major role as investment and credit supporter of European financial institutions, gaining in that way a comparative advantage in negotiations.

Through the outbreak of this crisis, the EU desired to re-launched and encouraged the negotiations that could lead to an FTA more at a time when competition from Asian countries was growing (Colombo & Commiteri, 2014: 26-27). From the GCC side the FTA was not a direct priority as similarly the emerging

Asian economies appear more stable to cooperate whilst the economic recession in Europe was not expected to recover soon (Koch, 2014: 10-11).

Returning again to the “decentralize cooperation”, even though the initial plan was not successful, during 2000 other sectors like trade and business contacts between chambers of commerce, issues of economic and monetary nature, researches and exchanges of know-how, environment and energy, appeared to have more positive results (Kostadinova, 2013: 7-8).

In 2003, the GCC member states decided to proceed with the creation of a monetary union by 2010, linking their currencies to the US dollar and maintaining the exchange rate until its inception when they would decide whether to continue this type of monetary anchor or not (International Monetary Fund, 2018). An exception was the State of Kuwait, which since 2007 has not followed the exchange rate with the dollar and adopted the connection of the dinar with a basket of currencies while at the same time was strongly criticized by the rest member states which continued to support the original agreed exchange rate (Gulf News, 2010).

Nevertheless, the European Central Bank, ahead of this challenge and in the light of its experience offered to provide the appropriate institutional and technical guidance so that this attempt could successfully be completed. Besides, such an exercise was particularly important for the EU as it promoted its own institutional standards, whilst on more practical variables it would facilitate trade between them. Moreover, the respective chambers of commerce of both parties agreed on one Memorandum of Understanding, closer cooperation through information exchanges, entrepreneur meetings and annual business meetings and senior official meetings. Equally remarkable is that since 2008 the two chambers have launched a communication channel with the aim of deeper understanding from the part of GCC chamber the EU services and policies. With reference to the energy component and the bidirectional diffusion of know-how at the end of 2009, EU and GCC both interested in the development of green policies (mainly solar energy) have made joint investments in energy production from renewable sources (Kostadinova, 2013: 8).

Lastly and independently of the “decentralize cooperation”, one more variable that affects the status of the GCC even with third parties and international organization, was the GCC declaration in 2008 that launched the operation of a common market which provides a similar privilege with those of the EU, such as the freedom of persons for relocation and work, a wide range of economic activities and services as well as similar tax treatment, social benefits, ownership rights and free and unrestricted capital movement (World Bank, 2010: 6).

2.5 "EN ROUTE" OF RECENT DEVELOPMENTS

In spite of the difficulties and the points of divergence, initiatives to make their cooperation as sustainable and profitable as possible in the so-called pragmatic subjects are continuing up to this day, even on low-policy areas.

At the Joint EU-GCC Ministerial Council in Luxembourg in 2010 the two bodies decided to set up the Joint Action Program (JAP). It is an almost three year duration plan (2010-2013) of coordinated contacts with the view to enhancing relations around a wider fourteen-point sector (Koch, 2014: 9). In particular, this plan has been institutionalized around areas which concern: economic, financial and monetary cooperation, investment, trade cooperation, energy (with subcategories related to electricity and water and nuclear safety), transport, environment and climate change, industry, combating money laundering and terrorist financing, intellectual proper rights, telecommunications and information technology sector, higher education scientific research (which was separated in cooperation in higher education, cooperation in scientific research and meteorology), tourism, cultural and mutual understanding and finally antiquities and museums (European External Action Service, 2010).[12] Essentially the JAP is a renewed version of the prior "decentralized cooperation" which, in addition to the meetings of the Joint Council, sought to express itself through expert meetings of the scientific and epistemic community with the aim of creating relations of interaction and exchange of knowledge.

Some examples of this cooperation have been expressed through education, commercial and financial studies and environmental debates. More specifically, from the field of education, exchange programs for students and academic staff were promoted (Koch, 2014: 9). Furthermore, other analysis was carried out by the respective chambers of commerce of the two regions for the small and medium enterprises of the Arabian Gulf while since 2012 it has been planned to evolve the dialogue around direct foreign investments with the first investment seminars carried out in early 2013. On the sidelines of the 18th UN convocation of Climate Change Convention, the Clean Energy Network of EU-GCC, which consist a specialized form

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[12] For further *information: The EU-GCC Joint Action Program for Implementation of the CA of 1988*, available in the website: https://eeas.europa.eu/sites/eeas/files/eu_gcc_joint_action_programme_en.pdf.

of collaboration that emerged through the JAP, came up to discussion with both parties exchanging views whilst in late March of 2013 another round of negotiations took place around issues of economic cooperation (Kostadinova, 2013: 9-10).

On the other hand, with reference to the academic/educational exchanging programs, although it has been a good way of mutual dialogue and sharing information, it could not continue its action without the necessary funding by one percentage this initiative was supported unilaterally by European funds for the implementation of the Science and Technology International Cooperation Network program (or INCO-NET), which was active from January of 2010 until December of 2012 and involved the co-operation between institutions with common interests in matters of research and technology (Koch, 2014: 9-10). Concerning the economic discussions in March 2013, they were marked by intense disagreements, as the EU intended to stop the Generalized System of Preferences from 1st January of 2014 for the GCC, which means the automatic taxation of petrochemical products from the Gulf exported to the EU. One of the reasons for this choice was that the EU believed that it had a strong negotiating tool to re-open the talks for the creation of FTA, however, the GCC had not shown any particular interest in the implementation of this move, as they indented to balance its commercial losses by increasing its exports to the Asian market (Kostadinova, 2013: 10). But the main reason was that, according to the World Bank report, the Gulf countries are considered to be as high-income for a long time, at a point where some of them may exceed the total pro capita income of the EU countries. Nevertheless, this change in tariffs did not lead to significant economic divergences as the GCC exporting products to the EU, which is mostly petroleum products, minerals and plastics, are taxed on average from 0% to 1% -1.5% (European Commission, 2013).

However, the decision which had no direct relation with the JAP, but, it could affect economic and mainly the trade relations with EU which apart from being interrupted, was almost at a zero level of progress, was that in March of 2010 four out of six GCC member slates, namely the Kingdom of Bahrain, the State of Kuwait, the State of Qatar and the Kingdom of Saudi Arabia, set up a monetary council in Riyadh of the future Gulf Central Bank, with a view to introducing a single currency and therefore the composition of a monetary union. But the results of this initiative were not encouraging due to internal disagreements and lack of unanimity (Colombo & Commiteri, 2014: 22-23). Not only that they did not release an exchange rate of the domestic currency with the dollar, but also the State of Kuwait, the Sultanate of Oman and the UAE had rejected the prospect of implementing this project before 2010. Especially the UAE considered that the economic conditions among the member states were not suitable for the creation of a monetary union whereas it had objections to the location of the future Gulf Central Bank (Gulf News, 2010).

Surely all these initiatives and consultations were made on the background of the Arab Spring which had already begun since December 2010 and were the cause of broader cooperation at political/diplomacy and security/military level between EU and GCC at senior official level, as the MENA region was governed by a regime of social turmoil and insurrection. In general GCC member states have collaborated with Western institutions and have played a coordinate role in order to decompress the situation immediately and effectively. Particularly, the State of Qatar apart from the economic and military backing it provide for the reversal of Qaddafi’s regime in Libya also contributed to the North Atlantic Treaty Organization (NATO) intervention, providing fighter aircraft while acted as a mediator between the Arab League, so as to facilitate the role of NATO in the region providing greater regional acceptance and collaboration.

Although, the evolution of the Arab Spring has brought the two institutions in a closer cooperation, their long-term goals are still not converging. Barring their trade disagreements, especially in the taxation of the petrochemical products, which has been a steady "thorn" in their relationship since 2010, the desire of the EU to infuse liberal democratic structures in the Arab Spring was a move that has likely added another element of slowing down future strategic goals taking into account the Islamic tradition of the GCC countries (Kostadinova, 2013: 10-12).

The expiry of JAP in 2013, in spite of the consultations that have taken place, found the two sides not to agree to any further renewal. Thence forward corresponding multilevel contacts and cooperation have stopped (Houliaras & Kalantzakos, 2016: 8). Even at the lasts Joint Ministerial Meeting, though both parties have agreed on a common context of cooperation for the enhancing of political dialogue, economic and trade interactions, social variables and because of the erratic situation in MENA also discussed security maintaining issues, peacekeeping missions, humanitarian aid and the fight against international terrorism, the outcome was totally general, did not make clear the objectives and a plan of action (Council of the European Union, 2015 and 2016).

Finally, as of May 2017, another communication portal was launched, complementary to that of official talks. Although this network was an informal trade and investment exchange forum, as the involvement of private companies is envisaged, its aim was to create the appropriate institutional and technical conditions in order to facilitate and develop future trade and investment flows (European Commission, 2018b). Though there is a prediction so that, this dialogue to move in a more formal context, there is no indication of how and if it could be achieved (Cornock, 2017: 19).

"No nation was ever ruined by trade".

Benjamin Franklin, American scientist, writer and politician

CHAPTER 3
INTERNATIONAL ECONOMICS OF THE EU AND THE GCC: TRADE AND FINANCIAL RELATIONS

3.1 THE EU ECONOMY AND ITS POSITION IN GLOBAL TRADE ARENA

The EU is, as a whole, one of the world's sizeable economies with its GDP exceeding 20% globally (European Parliament, 2018), and with one of the more notable markets, possessing the lion's share in goods and services among the firsts commercially vigorous countries (Table 3.1). To date the EU has it has managed to be one of the largest commercial actors as the recent years it contributes more than 16.5% of the global exports and imports and has the largest single market on a world scale. Additionally, the EU holds the largest number of exports of manufactured goods and services, is an import trade destination for more than 100 countries (Europa, 2018a), and an important source of Direct Foreign Investments (FDI).

Table 3.1
(%) Share in World Trade in Goods and Services (Excluding Intra EU Trade)

	2010	2011	2012	2013	2014	2015	2016
EU-28	17.5	17.3	16.5	16.7	16.8	16.6	16.8
USA	14.2	13.5	13.5	13.4	13.8	14.8	15.0
China	11.3	11.6	11.9	12.6	13.1	13.5	13.4
Japan	5.9	5.7	5.5	5.0	4.9	4.8	4.9
Canada	3.3	3.2	3.1	3.1	3.1	3.1	3.1

Source: European Commission-DG Trade Statistical Guide

The concept of free market is one of the driving forces that created the EU and a privilege which in combination with the single market, i.e. the free movement of goods, services, capital and peoples, apart from the member states, favors all those moving within the territory of the Union whether they are investors or simply consumers.

EU's economic and trade relations are part of its external actions and are concluded through corresponding agreements with third countries and international institutions or organizations. The responsible institutional representative body is the European Commission which acts for and on behalf of the EU and in accordance with World Trade Organization rules (WTO) (Europa, 2018a), of which it is a founding member and basic strain. Since the Lisbon Treaty in 2009 and beyond, the European Parliament has the authorization to participate in the legislative process regarding trade and investment issues, on an equal footing with the European Council whilst at the same time it was given the right to negotiate and to validate international trade agreements, as its consensus becomes necessary. Yet, some elements of commercial policy remain subject to the discretion of the national governments of the member states (European Parliament, 2018). In the shaping of the trade agenda, the EU has taken into account economic criteria, political and geostrategic parameters. As already mentioned in the second chapter, the Arabian Peninsula has drawn the EU's attention not only because of the petroleum producer countries but also to exert influence on an area of generalized instability, which was expressed through oil crisis, rebellions, wars and terrorist attacks. Furthermore, in the most recent history within the framework of CFSP, the EU shapes its commercial relations by exercising trade sanctions either by refutation favorable arrangements, such as the Generalized System of Preferences to the co-operating side or by means of an embargo imposed on the corresponding country or company informing accordingly the European citizens. In general, the trade policy other than a system of reciprocal benefits, could also act as a negotiating tool, means of compliance or as a prevention measure while the benefits that may arise may be long-term and not necessarily economic (Tselios, 2006: 174). Thus, the EU has tried to develop a multilateral network of cooperation, both at central and civil society level, where even in its economic negotiations it has included, for instance, human rights issues and democratization which in the future can contribute to a more regional security environment.

Equally important is that the economic and trade policy "quiver" of the EU is complemented through the financing of various initiatives, such as developing programs and humanitarian aid, providing large sums annually to support these actions. Over half of the global development aid budget comes from the EU and is intended for poorest countries (Europa, 2018b), whereas its contribution to humanitarian action is dated since 1992 to more than 110 countries, allocating every year around 1 billion Euros, which provides assistance to over 120 million people per year (European Commission, 2018a). In addition, regarding the low-income countries the EU has foreseen transactions subject to low duty rates, supports the efforts of small export companies and provides an advisory network to communicate experience so that they can be more sustainable and productive. Furthermore, EU's commercial policy has included some social variables, so it takes measures to deal with child labor phenomena, environmental protection and large fluctuations in price levels (Europa, 2018a).

Concerning the FDI, the EU also has a central position on the global investment scene as it holds a large share of FDI and correspondingly consists an international pole of attraction for them. After the Lisbon Treaty where the FDI was also formally included as part of the EU's international trade policy, further emphasis was placed on its already prominent position (European Parliament, 2018). Indicatively is reported that the EU in 2012 and in 2015, possessed the largest share in world FDI between countries such as the USA, China, Canada and Japan (Table 3.2).

Table 3.2
(%) Share of World FDI

	Inward Stock		Outward Stock	
	2012	**2015**	**2012**	**2015**
EU-28	34.2	37.8	45.5	48.0
USA	26.5	33.3	35.7	37.7
China	5.6	7.3	3.5	6.3
Canada	2.8	4.6	3.0	7.0
Japan	1.4	1.0	7.2	7.8

Source: European Parliament, European Commission and Parliament of Canada

However, the scene seems to be overturned for at least 2016, as the FDI stocks to and from the EU followed a downward trend, demonstrating how fluid and competitive things in the international economy are. Specifically, FDI originated from the EU side, declined in 2016 by 68% compared with 2015 (from €585 billion to €186 billion), whereas for the same comparative years, FDI from third-party investors to the EU were down by 41% (from €476 billion in 2015 to €280 billion in 2016), thus giving its primacy in testing. This abrupt change is primarily due to the investment interaction which it has with one of the largest investment competitor, the USA. Particularly, US business activities on European soil declined in 2016 by 76% as the acquisitions were €54 billion in 2016 while in 2015 €223 billion. On the other hand, capital inflows from the European FDI to the US decreased from €352 billion in 2015 in €258 billion in 2016. Corresponding disinvestment but in lesser scale were also observed for the European financial centers in Canada (- €17 billion) and in Russia (- €6 billion), making Brazil primarily (with €33 billion) and Switzerland secondarily (with €21 billion) as the top two European destinations for investments for 2016 whilst Switzerland and USA with little difference (€55 billion and €54 billion in order of reference), were the two largest investors to the EU for the same year (Eurostat, 2017).

3.2 THE GCC INTRA AND EXTERNAL COMMERCIAL POLICY

Holding in total about the 40% of globally proven reserves and therefore the largest market share in oil and hydrocarbons (Sturm et al., 2008: 62), the exploitation of its natural resources is dominant in its international trade transactions. Certainly the GCC export trade, due to the several elements of dependence on its natural resources, is still a larger source of revenues in relation to their imports, although in recent years this difference tends to be diminished (Table 3.3).

Table 3.3
GCC Trade with World Excluding Intraregional Trade
Total Goods: Trade Flows and Growth

	Imports		Exports	
Year	**Value Mio €**	**% Growth**	**Value Mio €**	**% Growth**
2010	262.143	18.8	456.910	47.3
2011	279.793	6.7	631.709	38.3
2012	366.141	30.9	773.758	22.5
2013	385.803	5.4	717.933	-7.2
2014	395.111	2.4	682.353	-5.0
2015	469.482	18.8	496.079	-27.3
2016	422.482	-10.0	421.035	-15.1
2017	418.675	-0.9	460.546	9.4

Source: European Commission

The high, almost monopolistic, oil production has as diachronic result the GCC member states to maintain low external tariffs for its imports, a fact which was further strengthened with the start of the operation of the common market and of the customs union. As it mentioned in the previous chapter, the GCC countries agreed on a 5% tariff for most external imported commodities while basic goods representing the one fifth of the imports, were exempt from any kind of tariff. On the other hand, the existence of minimum to zero tariffs resulted in a loss of state revenues. Thus, in order to address budget deficits, diversify tax bases and to guarantee the orderly functioning of the common market which resulted both due to low tariffs and because of FTA with third partners, the GCC countries have gradually progressed to the adoption of VAT as a measure to balance revenue losses (World Bank, 2010: 17).

Equally significant progress has been made in intraregional trade of the GCC, which, compared to other regional unions, is quite low. The large competition due to the similar productive exploitation of petroleum and hydrocarbon processes has resulted in heterogeneous industrial policies that make it difficult to develop their intraregional trade. Indicatively from 1995 to 2011 the intra GCC trade on average was at 7% whereas correspondingly in the EU accounted the 63% (Ayadi & Gadi, 2014: 48). Nevertheless, in the context of their economic integration and in line with the WTO guidelines[13], the GCC countries managed to simplify internal trade by reducing administrative and bureaucratic procedures such as the documents, the time and the cost of exports, so that there are no major transit delays. Furthermore, they adopted common standards and rules in over 3,000 products. Nowadays, there are few non-tariff barriers and related with preferential practices linked to public contract requirements and subsidies for manufacturing industries as well as continuing customs controls. Clearly, the removal of the last trade barriers in combination with the necessary economic transformations such as the liberalization of the market would make the GCC market even more accessible. An additional prerequisite is the development of an infrastructure network of commercial communication, such as railway constructions, in order to facilitate the movement of goods. All of these would in turn lead to an increase in the economic base, positively affecting even the wider export trade, while at the same time it would be an even more attractive investment international region (World Bank, 2010: 8-9).

In order to enhance international trade and make the mutual access in markets easier, although that the GCC has negotiated trade agreements for several years with other international unions and countries the results of these talks are not particularly encouraging while many negotiations for the creation of FTA or Trade and Investment Framework Agreements were made unilaterally by the states.

[13] All the GGC states are active member in WTO. Among them last entered the Kingdom of Saudi Arabia in 2005.

Nonetheless, the independent initiative of the Kingdom of Bahrain to sign a FTA with the USA in 2005, triggered in the GCC as a whole, a desire to conduct all its forthcoming and future multilateral trade negotiations, through a common policy line which will be expressed by the Secretariat and not by individual interests of senior officials, thus creating a unified political trade line and not pluralistic dissimilar interests which could slow down the processes (World Bank, 2010: 18). At present, after several rounds of negotiations with most of the partners, the GCC is still actively discussing the completion of FTA. In this ongoing situation except from the EU (with 24 rounds of official talks), the GCC is negotiating among others with Mercosur, Japan, China, South Korea, Australia, Pakistan, India and Turkey (United Arab Emirates-Ministry of Economy, 2017), i.e. with countries and unions which are already consist their largest trading partners and it obviously wishes to harmonize their trade transactions under a reciprocal framework with fewer trade barriers which would facilitate both sides. Especially the Asian market, with which FTA mostly negotiates the most FTA, is the main export market in goods accounting for about 60% of its total exports of the top trading partners. On the contrary, the EU although it represents a smaller share of its exports, consist the main market source of GCC imports flows by around 20% of the total (Table 3.4).

Table 3.4
GCC Trade with World Excluding Region Member States
Total Goods: Top Trading Partners 2017

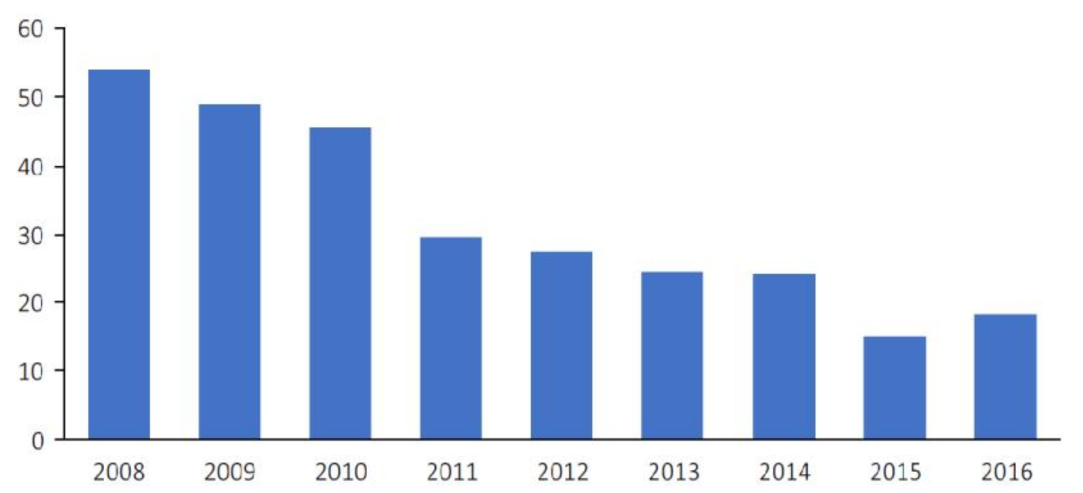
Imports			Exports			Total Trade		
Partner	**Value Mio €**	**% World**	**Partner**	**Value Mio €**	**% World**	**Partner**	**Value Mio €**	**% World**
World	418.675	100.0	World	460.546	100.0	World	879.220	100.0
EU-28	84.555	20.2	China	59.304	12.9	EU-28	128.302	14.6
China	47.736	11.4	Japan	57.371	12.5	China	107.040	12.2
USA	47.496	11.3	India	49.061	10.7	Japan	74.313	8.5
India	25.193	6.0	South Korea	44.317	9.6	India	74.254	8.4
Japan	16.941	4.0	EU-28	43.747	9.5	USA	72.009	8.2
Turkey	11.129	2.7	USA	24.513	5.3	South Korea	55.411	6.3
South Korea	11.094	2.7	Singapore	23.400	5.1	Singapore	26.506	3.0
Brazil	6.399	1.5	Iran	19.212	4.2	Iran	20.660	2.4
Switzerland	6.355	1.5	Thailand	13.384	2.9	Thailand	19.021	2.2
Thailand	5.637	1.3	Pakistan	11.511	2.5	Turkey	18.690	2.1

Source: European Commission

In the context of FDI, the GCC member states represent a small percentage in world's share flows. Although there was some rise in the early 2000s in FDI inflows, in which the establishment of the custom union and the 5% common external tariff in

2003 may have also contributed (Ayadi & Gadi, 2014: 64-65), it was not sufficient for the GCC countries to become an international FDI center This seemed more pronounced in the period 2008-2016 where FDI inflows declined by 63%, equivalent to less than US $20 billion (Diagram 3.1) (EU-GCC Investment report, 2017: 10).

Diagram 3.1
FDI Inflows to the GCC Countries, 2008-2016
(in US Dollars)



Source: EU-GCC Investment Report

Since the beginning of the 2000s the GCC member states have been taken important steps to make progress through appropriate reforms so as to create a more favorable environment for FDI by reducing several inhibitory factors. These reforms concerned the ownership regime, the creation of independent investment zones, changes in the bureaucratic procedures and issues which concern the specialization of labor force.

With reference to the ownership regime and the creation of free investment zones, the scene has been quite overturned in relation to the previous situation as foreign investors under conditions have foreseen to possess even 100% of the capital stock. More specifically, in the Kingdom of Bahrain and in the Kingdom of Saudi Arabia the status of wholly foreign ownership is permitted only in companies which are activated around the fields defined by the Ministry of Industry and from Saudi Arabian General Investment Authority (SAGIA).[14] In the state of Kuwait the last FDI

[14] It is about for an authority which regulates the license and the operation of foreign companies which are established within the territory of the Kingdom of Saudi Arabia.

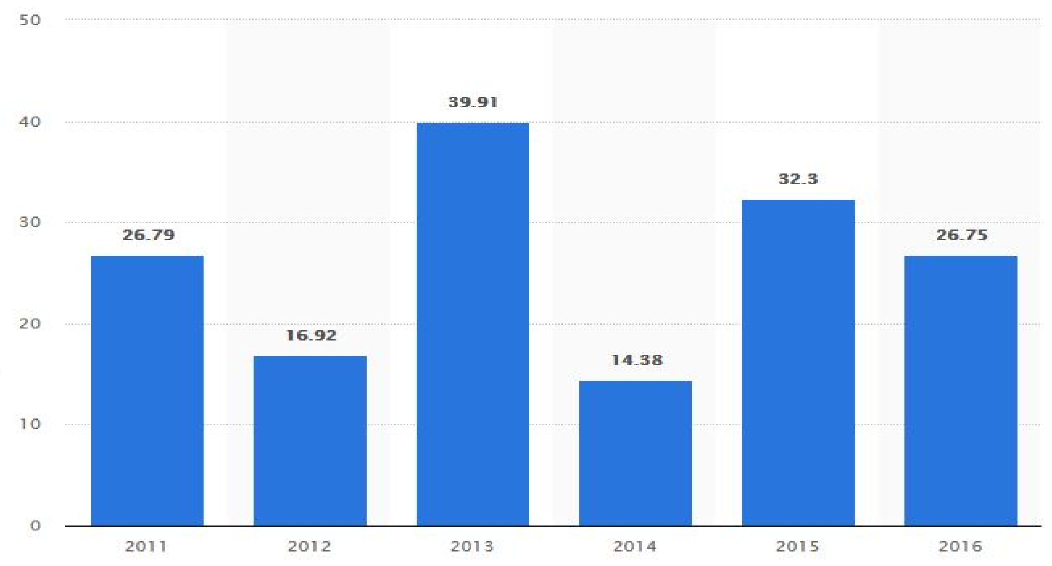
allows possession of 100% of foreign ownership insomuch they develop outside of free zones. In the State of Qatar, although it was not yet implemented since 2016, it is legally stipulated that foreign entrepreneurs can hold 100% of the property in all types of investments, provided that they employ at least one Qatari services agent. The Sultanate of Oman appears more conservative where it not allowed for third investors to own the majority share package with exceptions in some sectors and only for GCC nationals whilst in the UAE the wholly owned property for foreign investors is only allowed within the free zones (EU-GCC Investment Report, 2017: 35).

The second case of legislative reforms concerns the adoption of a strategic plan so as to simplify bureaucratic structures through the reduction of the quantity of necessities documents and the duration of processing each request (World Bank, 2010: 17). Nevertheless, there are still some time-consuming procedures. For instance, investments related to the construction sector or the supply of services encounter more difficulties with licensing than the companies that want to be active around the defense or energy sector where in most cases the state-owned firms are co-owners and therefore all processes are speeded up. In general, it has been observed that even in cases that for 100% ownership is provided, the collaboration with local partners operates positively in all licensing processes (EU-GCC Investment Report, 2017: 14-15).

Regarding education, the lack of suitable qualified staff is a factor that has negatively affected the development of the process. To combat this phenomenon and to enhance the diffusion of knowledge, some GCC states have as a prerequisite the FDI operating on their territory to employ local workers as well. Equally important is the initiative set up by European companies which in cooperation with local universities offer programs of postgraduate studies. Furthermore, it is given an opportunity of exchanges between officials working in the EU with corresponding GCC employees. Many of these initiatives are addressed exclusively to women with the aim of increasing their number of participation in the workplace while job specialization in general will have the future benefits in salary inflation in all categories of workers (EU-GCC Investment Report, 2017: 26, 37).

Finally, regarding the outward FDI, in the GCC member states, as it seems there were not particularly active foreign investors until 2006. Since then they have begun to take an upward course, to a point where by 2008 foreign investments had reached €26 billion. Then it followed a period of recession due to the global financial crisis and the crisis of Dubai. Yet there is already a recovery in exports of capital with the Kingdom of Saudi Arabia and the UAE to have the lion's share in these types of investments (Ayadi & Gadi, 2014: 67). From 2011 the GCC countries began anew to show up an upward course reaching a peak of about $40 US billion in 2013 but also with two significant downtrends in 2012 and 2014 which remembers again the performances of the previous decade (Diagram 3.2).

Diagram 3.2
FDI Outwards from GCC Countries, 2011-2016
(in US Dollars)



Source: Statista

In general lines all the GCC countries are considered as high exporters in outward FDI compared to their total income and trade level. Moreover, this mobility in the field of FDI is not considered entirely random as mainly it is done in the context of the efforts of economic diversification. Thus, the purchase of foreign assets is another step in this direction. Although we do not know the countries or the economic regions and unions where the GCC member states would prefer to invest their surplus funds as well as the sectors where they would choose to invest more, it is assumed that that they are moving towards markets and high level companies and it is proven by fact that their total outward FDI stocks in its entirety corresponds to a remarkable percentage of their GDP (Ayadi & Gadi, 2014: 67-68). An exception is the Kingdom of Saudi Arabia which shows a particular interest in external investment related to conventional energy sources such as oil, natural gas and renewable energy sources in countries like Indonesia, South Korea and South Africa and within the GCC to the UAE where in general it is the number one country for inward FDI in Gulf (Aim Investment Report, 2016: 65).

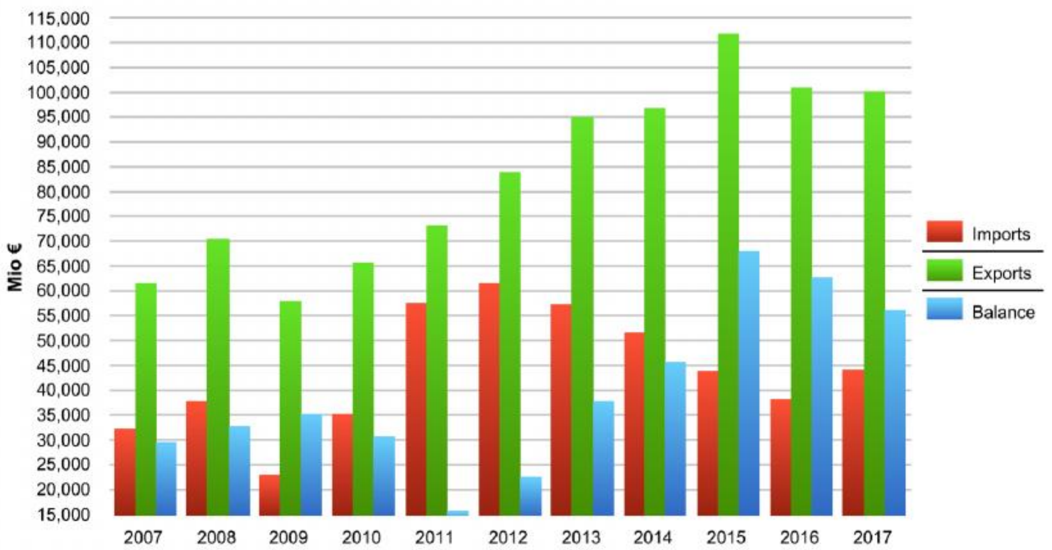
3.3 EU-GCC TRADE DEALINGS

Beyond the political influence that the EU wanted to develop in the Arabian Peninsula, the cooperation with the rich oil-producing countries to meet its energy needs was and still is of prime importance. From the side of GCC countries, the large energy natural stocks have become the most important factor to experience a great economic and investment development as they are considered as one of the greatest suppliers of oil and natural gas internationally. Thus, the trade transactions in goods between the two regional entities ranged around the areas where each one had the comparative advantage: On the one hand, the GCC exports to EU are mainly oriented around mineral fuels, mining products and chemicals and on the other, the EU is considered a significant importer for goods of high quality and technology such as manufactured products and transport equipment such as cars and tracks (Ayadi & Gadi, 2014: 54).

Undoubtedly, if FTA had been reached between the two regions, trade relations would now operate under a different development regime. Despite the upward trend given the fact that the trade surplus of their bilateral relations is estimated at over €60 billion in 2000s (Cornock, 2017: 19), the global financial crisis of 2008 stood as the last catalyst factor so that the trade dealings between EU-GCC would enter into a recession, at least the first two years of the crisis, as traditional GCC investments into the EU such as bonds and shares began to move in Asia (Houliaras & Kalantzakos, 2016: 9-10). The fact that emerging economic powers such as Brazil, Russia, India and China (the BRIC countries), have shown to be less affected by global economic instability, had as a result the first years of the crisis to be in a more favorable position. In the period of 2008-2009 the demand for EU oil was obviously lower, as opposed to imports of European goods in the GCC countries where demand remained at ordinary levels (Ayadi & Gadi, 2014: 54-55). However, from 2011 onwards, their trade relations in goods began to recover.

In 2012, the EU import flows from the GCC recorded the biggest rise in the decade 2007-2017, reaching €61.270 million while the largest increase surplus in EU exports to the GCC marked in 2015 with €111.5 billion. The 2017 was a better year for the EU imports from the GCC compared to 2016, as amounted to €43.9 billion whereas the in 2006 the surplus were at €38.1 billion. Contrariwise, the EU exports to the GCC in 2016 were marginal higher as amounted €100.7 billion whilst in 2017 were at €99.9 billion (Diagram 3.3).

Diagram 3.3
Total Goods: EU Trade Flows and Balance with GCC
Annual Data 2007-2017



Source: European Commission

Further industrial development in the Gulf region, will in any case benefit EU export trade in goods. Albeit, as mentioned in the previous section, the increased demand from South and East Asia for products from the GCC countries has as a result the positive rates in trade balance to be shaped by their commercial contacts with the Asian market (Seznec, 2017: 39). However, for 2018 the preference of the GCC to the EU continued to be at a high level, as in total trade the EU was their first partner with 14.6%, second was China with 12.2%, third Japan with 8.5% and a little further down, India with 8.4% (European Commission, 2018b).

With regard to the countries which form the largest proportion of trade relations, diachronically is mainly concentrated around specific member states from both sides. In particular, the commercial flows are chiefly shaped around the interactions in the defense sector among France, Germany and the United Kingdom from the EU side and the State of Qatar, the Kingdom of Saudi Arabia and the UAE from GCC part, as since the beginning of the 1990s have signed such agreements. On average from 1995 to 2011, all the above countries account for 70% of bilateral trade contacts, nonetheless, their general commercial relations of goods that have developed are not characterized of high intensity. Indicatively, the United Kingdom introduced military equipment to the Kingdom of Saudi Arabia, the defense consortium European Aeronautic Defense Space which is a company of French interests, manufactured an air fence system on the borderline between the Kingdom of Saudi Arabia and Yemen while later Germany get involved more actively in the equipment “race” developing the relationship with the Gulf area by providing military airplanes in the region (Ayadi & Gadi, 2014: 55). Except for notable imports of natural gas and oil, the largest EU trade surpluses from the GCC states, as illustrated in diagram 3.3, is mainly due to UAE as many of the goods imported into its territory are automatically re-exported to neighboring or African countries through the Jebel Ali Free Trade Zone. Second is the Kingdom of Saudi Arabia, with the largest production of chemical products in the GCC. All the same, the chemicals sector is one of the main fields of trade deficits in the Gulf. For example, in 2016, although exports of chemicals to the EU increased by €4.6 billion, imports of other chemicals and pharmaceuticals from the EU amount to €11.5 billion. Other sectors generating deficits of €30 billion in the GCC, as regards its trade relations with the EU, are machineries and transportations, with the deficit in machineries amounting to €20 billion and the rest €10 billion primarily in cars and trucks for the transport sector (Seznec, 2017: 39).

Concerning the trade in services, given the fact that the GCC countries do not have high levels of diversification beyond the exploitation of their natural resources, the imports in services are certainly far more than the exports. For instance, from 1995 until 2011 the value of GCC exports in services is estimated at €2.3 billion while other economies such as the BRIC countries or the EU have cumulative value of exports services €2.3 trillion and €20 trillion correspondingly. On the contrary, the total value of import services in GCC for the same time period was amounted in €0.75 trillion. Equally remarkable is that the total trade in services both in GCC and in EU, approach the same percentage of their GDP, i.e. about 15% to 19% (Ayadi & Gadi, 2014: 58). Additionally, service trade rose further in 2014 to 47.8 billion in relation to 2010 as it was amounted in €36.5 billion. In general and on an approximation basis, exports of services from the EU to the GCC is about twice as high as the corresponding exports of the GCC to the EU (European Commission, 2018b).

With reference to the type of services, the large capital surpluses and the disposal of channeling it in alternative sectors apart from oil production has led the

GCC to an export trade which focused on financial services and investments, infrastructure and insurance companies. On the other hand, the import mainly concern transport, travel and government services. In the context of economic diversification, considerable efforts have been made to make the region an international tourist destination as well as an attractive path between Europe and Asia. However, the most remarkable imports are these of government services which concern capital inputs for the covering of government agencies such as embassies, consulates or other delegations and the maintenance of foreign military bases such as the USA or EU member states (Ayadi & Gadi, 2014: 58-59).

Similar with trade in goods, the conservatively developed service export sector do not make the GCC member states as top commercial partners for the EU; nevertheless the EU's export trade in services is not considered particularly widespread as it is quite concentrated on industrial goods, power plants, rails and aircrafts at a rate that reaches 90%. Although they are particularly competitive products compared to the corresponding products of the Asian and American markets, and significant investments for the GCC countries, this large concentration may have been acting as an inhibiting factor for the further development of European export services (Cornock, 2017: 19).

From the GCC side, beyond the centralization of production around the hydrocarbon sector, the modest development in services is due to a series of other factors. With regard to exports of services is ascribed largely to the incomplete care given to education systems so that human resources would be able to get the appropriate know-how and because of the strict conditions that did not facilitate skilled migrant workers to enter their territory and contribute to the diffusion of knowledge and the increase in human capital. Nonetheless, as mentioned above, significant progress has also been made in this field. Lastly, from the import side, the also rigorous access conditions and the prerequisites that investors have to meet in GCC discourage foreign suppliers while at the same time slows down diversification efforts in a more and more competitive international environment (Ayadi & Gadi, 2014: 59-60).

3.4 THE CASE OF FDI: THE EU PRESENCE IN GULF

In contrast to the EU, the GCC member states seem to invest more in Europe than the EU in the Gulf. On the other hand, the EU's inflow in the GCC countries represents a large percentage of the total FDI existing in the area, something that does not apply vice versa (Ayadi & Gadi, 2014: 68-69), though individually, the UAE are among the most important investors in the EU in FDI, in the sectors of bank deposits and capital shares (Bianco, 2014: 4). Nonetheless, both unions are profitable areas for foreign investors in terms of stocks.

At a countries level, the Kingdom of Saudi Arabia, the UAE and to a much lesser extent the State of Qatar, since 2004 are the areas with the largest number of FDI at a percentage of 90% (Ayadi & Gadi, 2014: 64). With regard to the other GCC countries, surely in the future as the regulatory framework becomes more flexible for foreign flows, their FDI rates could easy be increased albeit so, the intense competition that will be created due to the alternatives offered in the region developing economies such as the Asian, is something that could not be overlooked by the European side and in the long run affect their investment relationships (Bianco, 2014: 5-6).

Concerning the overall investment environment, the low tax regime is considered by many European companies to be a major business incentive while some future increase it can have a discouraging character. The level of customs duties is also treated positively for the enterprises which are active in the GCC region but compliance with regulatory frameworks and product registration for the imported goods which are transported within the GCC territory consist a friction point. (EU-GCC Investment Report, 2017: 34, 36). Also, the government expenditures advanced by the GCC governments in the framework of recasting their infrastructure and boosting their tourism has been a positive asset for the international profile of the Gulf countries and therefore could attract new investments. Nevertheless, the impact on government spending due to the abrupt change in oil prices and often changes in the legislative and regulatory frameworks relating to the operation of foreign firms are some facts which are tackled with skepticism (EU-GCC Investment Report, 2017: 23-24). These facts in combination with the data developed in section 3.2 such as the particular ownership regime which prevails in the area where the cooperation with local partners it is almost necessary for technical and bureaucratic reasons even if 100% foreign ownership is envisaged, the state participation depending on the investment sector, the lack of expertise and the compulsory employment of local workers, perhaps to one degree demoralize investment initiatives that could be developed in the wider region.

Finally, mostly on the basis of legislative changes, starting business activities in the GCC region from foreign investors it is not as difficult a case as it was before. Such initiatives could have corresponding positive impact even on the political dialogue, as long as mutual benefits are created so relations of interdependence will be developed under a more stable political and economic framework.

"The secret of a change is to focus all of your energy, not on fighting the old, but on building the new".

Socrates, Greek philosopher

CHAPTER 4
ASPECTS OF OPPOSING DIRECTIONS
POLITICAL DIFFERENCES AND ECONOMIC OBSTACLES

4.1 STRUCTURAL DIFFERENCES

The fact that for several years now the EU and the GCC have developed a series of contacts around a broad framework for cooperation but in most cases have not been completed successfully is largely due to structural differences. Despite the efforts of the GCC to evolve in order to reach EU standards, the nature of the two organizations is still different while the lack of a common long-term plan further slows down the relations between them.

One of the main differences is institutional character and it is identified in the decision-making process and in the way of policy formulation, as the GCC follows a top-down approach whilst the EU a bottom up. Hence the negotiations of the two organizations are carried out by a different institutional framework of representation (Koch, 2014: 13-14). More specifically, the GCC acts as an intergovernmental body whereas the EU as a supranational institution with increased responsibilities (Kostadinova, 2013: 3). Although it has been expressed the idea that in the future the GCC Secretariat General will have a more supranational character, functionally it is still more limited than the European Commission. In general lines, GCC Secretariat General consists a small institutional body, its budget in most of the cases needs to be approved by the all the governments of the member states and it does not has the right to negotiate or to represent the Council in its entirety, in contrast to the European Commission which internationally could negotiate for instance commercial cooperation in the name of the EU (Nonneman, 2006: 67). In general, in GCC the decisions on strategic issues such as the pursuit of foreign policy are mainly applied at a national rather a regional level, with result many times in conflicts and disagreements about the guidelines to be followed in both domestic and foreign affairs. This can be seen from the failure of consensus on the creation of a monetary union, from the competition that exists between the Kingdom of Saudi Arabia and the State of Qatar after the Arab Spring (Colombo & Commiteri, 2014: 22-23) and more recently, on June 5, 2017, from the diplomatic and commercial embargo imposed by the

Kingdom of Bahrain, the Kingdom of Saudi Arabia, the UAE and from Egypt to the State of Qatar, as they consider that the latter supports terrorists and has developed close ties with Iran (Gulf News, 2018).

A second inhibitory factor is related with the adoption of independent relations that the Member States of both sides aspired to develop, making this way the deepening of their relations at a regional level difficult. Although that EU has a particularly developed diplomatic “quiver” in its international collaborations, it has failed to pursue a single policy in the Gulf region, as its member states chiefly sought serving national interests. Classic example is the intensive competition that has developed between EU member states and companies for the conclusion of individual and not collective commercial contracts and other investment action in the Gulf (Koch, 2014:15). This situation has alarmed some EU member states leading the European Commission to take initiatives to serve a single European policy to the GCC (Colombo & Commiteri, 2014: 23). Similarly, phenomena of bilateral contacts development against multilateral cooperation are also appearing in the case of the GCC. The different structural way with which the two unions are formed and the lack of an understanding of the EU’s double nature in terms of its external relations, has led to the perception that their cooperation with national delegations of European countries could operate more easily and effectively than the one of the European Commission. Thus, the GCC countries prefer a range of sectors in order to maintain contacts with the EU member states individually, also discouraging from its side, the strengthening of cooperation under an integrated multilateral basis (Youngs and Echagüe, 2007: 32).

Finally, a third retardant factor revolves themes such as democratization, human rights and the protection of minorities. The different perception on these issues has been diachronically a point of friction between the two regions in many sectors of cooperation while many times the GCC countries have prevented the creation of an official dialogue channel with the EU as it does not allow external interventions on domestic issues (Koch, 2014:15). However, the EU having high on its agenda the development of humanitarian actions and the promotion of political reform programs, continues to support dissemination of these fundamental principles even indirectly, by including them in many cases of their bilateral cooperation such as the FTA or by acting as adviser at the invitation of the existing and official governments (Youngs and Echagüe, 2007: 35).

4.2 BARRIERS TO THE COMPLETION OF A FTA

In addition to the institutional and political differences, the reasons that hinder the implementation of the FTA between the EU and GCC revolve around different perceptions of economic and industrial nature (World Bank, 2010: 20). Many times the talks started and stopped as diverse approaches and policies on basic issues that would allow the completion of the FTA failed to be overcome.

One of the main issues of the negotiations that overwhelmed a large part of the talks concerned the protectionism of the EU in the petrochemical products and the intense objections of the GCC to the existence of this phenomenon (Echagüe, 2007: 10). For a long time the lobby of European petrochemical industries put strong pressure and was actively mobilized against the liberalization of trade GCC (Colombo & Commiteri, 2014: 24). The argument was that the practice of the double pricing policy acts as an indirect subsidy which would have a positive effect on EU imports as the products will enter at a lower price. However, the maintenance of this phenomenon would lead to the annihilation of the competitor in corresponding export markets, so the European Council of Chemical Manufacturers' Federation exercises pressure to the European Commission to adopt anti-dumping practices. Nonetheless, European petrochemical industries had been forced to abandon their claims when the Saudis persuaded the WTO that export prices created additional costs.

Another main point of disarmaments in their trade relations is related with aluminum products. The implementation of a FTA would have direct impact on the EU aluminum's industry, as at present the aluminum imports from the GCC countries, which are considered to be major aluminum producers, are subject to a duty of 6% (Houliaras & Kalantzakos, 2016: 11).

Respectively what also negatively affects the talks is the adoption of the carbon dioxide tax from the EU part. The EU in the context of promoting "green" and environmentally friendly policies introduced this tax in its imports in order to reduce the emissions from fossil fuels. Certainly, one such regulation influences negatively the trade of the GCC member's states as fossil fuels represent a large part of their export trade (Houliaras & Kalantzakos, 2016: 10), while this does not leave the European taxpayers uninfluenced as they are additionally burdened on a product that is already highly taxed (Kostadinova, 2013: 4).

Also, other points of divergence were the differentiated prices in gas exports from the Gulf member states and the rules of origin provisions to be met by products entering the territory of Gulf (Youngs and Echagüe, 2007: 37). Lastly, the negotiations are still slowing down due to the difficulties faced by foreign investors in the services sector while enter in the Gulf market and the reduced transparency that exists in the Gulf countries with regard to public contracts (Houliaras & Kalantzakos, 2016: 11-12).

4.3 WEAKNESSES IN SECURITY MATTERS

Yet another area of cooperation where several institutional weaknesses and opposing political perceptions appeared to prevent its completion is the area of security. Surely the completion of such cooperation will have a positive impact on other areas of cooperation at economic and political level (and vice versa), but a series of different positions and de facto situations in combination with the international developments that are currently defining new priorities, functioned once more inhibitory.

As already been referred, the presence of the United States for several decades in the Gulf area as a guarantor of security is unquestionable. However, this was not the only reason for which the EU failed to develop a corresponding cooperative network. Particular, from the EU, the necessary institutional structures were absent so that it could act autonomously and effectively. Thus, in spite of the existence of strong military forces in EU such as France and the United Kingdom, the failure of the EU to act as a defensive umbrella and to guarantee the security of GCC countries from external threats, from one hand the US defense cooperation with Gulf countries continued to be primary and from the other it failed to deepen their relationship (Kostadinova, 2013: 6), at least until the end of 2000 where the Arab Spring gave anew cooperation incentives. More specifically, the erratic situation in the Middle East helped to create a series of diplomatic and military interactions and formal contacts, as EU and GCC agreed on the adoption of a common policy line to address crises in countries such as Syria, Yemen and Libya. Nonetheless, factors such as lack of necessary resources or basic cooperation channels, limit their ability to undertake such actions while it is very possible to slow down these initiatives due to their long-term strategic objectives.

Finally, the influence of the EU and the desire to create democratic structures in the Arab Spring is something that is not positively embraced and supported by the GCC states. But in any case the events of the Arab Spring have given the opportunity for a renewed and evolving cooperation framework (Kostadinova, 2013: 10-12).

CONCLUSIONS

The EU-GCC relations have been consisting for decades a reality with several barriers against integration. Though each is an important transnational union in its wider area, the relationships between them do not correspond to their original aspirations. Since 1989, where their cooperation was also signed institutionally, although there have been several formal talks have been taken to deepen relations at a wide political, economic and social level, the progress signs are minimal while in the future, the relationship is not expected to be improved if their cooperation is not restructured.

A first step that would lead to the stabilization of their relations is the agreement for a long-term strategic plan. Over the years, many communication channels have been adopted which besides being interrupted have been a totally opportunistic character. This decisive role should be taken by presidencies which each time undertake the negotiations and see how effectively they could move towards the adoption of common goals. Especially in such cooperation between two transnational unions that are shaped around different cultural structures the finding of a golden section deemed necessary. Nonetheless, in order to successfully operate such a synergy they must clarify the extent to which such a cooperation is related to the direct priorities of their external relations. In general terms, the EU and most of its presidencies have in priority the creation of interdependence relations with the GCC. On the other hand, the GCC, although for several years it has maintained the development of multilateral contacts with the EU at a high level, since the start of the economic crisis in 2008 and then they began to be interested less and turn to the Asian markets as the latter have tended to be less vulnerable to economic fluctuations and that even in trade and economic agreements, the EU sought policy changes as it pushed for human rights reforms. However, the EU has a comparative advantage capable of reversing this situation: it provides products of higher quality and know-how compared to other markets that are developing or not. Nevertheless, to reclaim this advantage correctly the completion of a FTA and an aligned policy, from which there will be mutual benefits, must be achieved.

More specifically the implementation of a FTA it would increase trade transactions between the EU and GCC as there would be easier movement of goods and services given that they would not be subject to tariffs while it would also positively affect the development of FDI in both sides. Furthermore, it would accelerate efforts of the GCC member states to reduce the dependence oil, it would help to further develop the private sector in GCC countries and this in turn could lead to the development of multilateral communication channels with other EU companies. Thus, an appropriate basis could be created by influencing their relationships in economic, commercial, scientific, educational and working levels. In any case, the transactions will be made under a more secure framework, capital inflows would be strengthened whereas would also open the road for better cooperation in other fields such as political field and security. Nevertheless, the full implementation of a FTA between EU and GCC must overcome a series of problems both intraregional and during their bilateral negotiations. Intraregional the GCC is faced with another internal crisis which affects the conclusion of collective agreements with third parties as from June 2017 the Kingdom of Bahrain, the Kingdom of Saudi Arabia and the UAE interrupt their contacts with the State of Qatar, affecting at the time their efforts for internal integration. From the EU side due to the exit of the UK from its institutional framework, it loses an important partner with a historic presence in the Gulf area and one of the largest GCC trading partners with a significant share of the total revenue. In the future beyond the loss of trade profits which the EU would have because of *Brexit*, it is quite interesting what relations the UK would develop with the GCC countries either individually or as a union (provided that it would restore them), around which sectors, how long the negotiations will last until they are successfully completed and to what extent the relations with the EU could be affected.

With regard to the institutional organization from the side of GCC, the strengthening of a supranational entity would help in the decision-making process and in the adoption of a single policy line both in its internal and external relations, since the lack of consensus has as an impact, decisions that are mainly taken at the level of national governments. This has the effect of preferring to develop bilateral relations with European States and not at multilateral level between the EU and the GCC. In addition, the development of bilateral relations at state level is reinforced by the fact that the GCC does not fully understand the multi-faceted structure of the EU with the result to consider the cooperation with individual states easier, more direct and with fewer barriers. The concept of bilateralism is further enhanced by some European states which due to the intense competition in the Gulf region, prefer to conclude unilateral commercial and investment agreements in the Gulf market. This automatically leads to the undermining of the collective acquis both within the EU and the GCC that result in slowing down the collective efforts, also affecting negatively other areas of cooperation. However, if these bilateral contacts are properly exploited, they could create the right conditions to develop communication channels that revolve around long-term goals at multilateral level between the two unions.

Concerning the relations at a political level, many times there have been disagreements as the EU has launched discussions related with political and social reforms while the GCC countries do not allow external interventions on such topics. Even in the negotiations for the completion of an FTA, the EU has sought such kinds of reforms that resulted firstly in being accused of giving political complexion in issues of economic nature and secondly standing as a key cause to the cessation of negotiations of FTA. A good measure through which similar intensities could be avoided in the future is the continuous cultivation and development of contacts with civil society, as this engagement could lead to such changes in the long run. An equally effective measure could also be to operate to relatively recent ways of developing external relations that the EU has included in its toolbox. It is about the “science diplomacy” and it provides an indirect approaching with third partners around various scientific fields (social, humanitarian, economic) when their direct contacts are subject to intense disagreements that hinder transnational cooperation.

With reference to the security sector the issue of maintaining stability, is still one of the primary objectives for both sides as in the wider region of Gulf many situations of armed conflicts and terrorist attacks have been noted which raise concerns and cause generalized insecurity. Given the fact that the presence of the US as a defensive force in the region is uncontested it is a very important opportunity for the EU and the GCC to follow a common line by developing humanitarian aid and peacekeeping missions which will smooth out unstable situations whereas at the same time it would create a positive background for deepening their own multilateral relationships.

In this constantly evolving relationship, the fields of cooperation are interrelated and the failure of consensus in one field affects the integration of the other. However, if the points of friction are overcome by taking rational measures, the relationship may evolve to such a degree where the benefits of one may also bring profits to the other. Finally, necessary prerequisite for all the above, is an institutional framework that could give birth to a new “value system” based on appropriate principals of mutual cooperation, able to guarantee a profitable and sustainable relationship.

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