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Trade Dependency Within a Volatile Union: The Gulf Cooperation Council Case

Glnar Eskandar¹

Abstract

The Gulf Cooperation Council (GCC) has faced serious challenges to its credibility as an economic union. Comprising six nation-states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) on the premise of sharing common national objectives, the GCC's recent past is marred by intra-bloc political disagreements that even led to a trade embargo against one of its member states. These internal tensions were coupled with sobering negative externalities, such as fluctuations in energy prices and the COVID-19 pandemic, further impacting the union's economies. Despite these hurdles, this study shows, GCC intra-bloc trade dependence increased over the past decade, especially following episodes of negative external shocks affecting overall trade. Bahrain, Oman, and the UAE have grown the most dependent on the bloc for trade, with the former two particularly reliant on GCC imports to meet their domestic demands, and the latter reliant on the bloc as a significant export destination. By comparison, Saudi Arabia, Qatar, and Kuwait are the least dependent on the bloc. Viewing high trade dependency on growingly volatile neighbors as a vulnerability, this paper highlights the GCC member states most exposed to intra-bloc trade shocks. A closer look reveals heavy commodity-specific intra-bloc dependence, one that could lead to major disruptions in Bahrain and Oman's economies should another intra-bloc trade embargo ensue. The study also uncovers a major hiccup to future GCC trade integration: Saudi Arabia, the GCC's biggest market and the second largest contributor to intra-bloc trade, has the least to gain from trading with its neighbors.

Keywords: *Gulf Cooperation Council (GCC), intra-bloc, trade dependence, import penetration, export propensity*

Introduction

Trade interdependence is a subject of debate within the international political economy literature. On one end of the spectrum, liberal theorists view strong bilateral trade positively; like other forms of economic cooperation, trade interdependence is seen as an inhibitor of conflict (Copeland 1996). On the other end, realists maintain that true mutual interdependence is rare and that any form of foreign dependence is a national security liability (Mansfield and Pollins 2004). Siding with the realist paradigm in recognizing that heavy trade reliance is a vulnerability even within a trading bloc, this study provides an in-depth assessment of a case in point: the Gulf Cooperation Council's (GCC) intra-bloc trade during the eventful decade of 2010-2020. By examining the unequal trade relations within this increasingly unpredictable union, this study

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reveals some of the economic rationales behind recent intra-GCC tensions and offers insights into the bloc's trade potential.

This paper begins with a brief background on the GCC as a trading bloc and its recent marred history to highlight the importance of studying trade interdependence within the bloc. This is followed by an assessment of the economic disparities within the GCC given their relevance to any meaningful intra-bloc trade analysis. The subsequent section details the rationale behind the mathematical methods used to gauge relative intra-bloc trade dependence. The bulk of the paper is dedicated to analysing the results and revealing the most and least intra-GCC-dependent economies. For a more nuanced assessment, the study also explores commodity-specific dependence and the impact of three significant events in GCC history on intra-bloc trade: the 2014-16 energy price crash, the 2017-20 Gulf Crisis, and the COVID-19 pandemic. The study concludes that GCC interdependence is uneven, with some states far more vulnerable to internal trade disruptions. Notably, the largest economy within the union has the least to gain from trading with its smaller neighbours.

Background

The four-decades-old GCC provides an interesting case study for international relations scholars, particularly political economists. Set up in 1981 with six members comprising the Arabian Gulf states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE), the Council's formation was instigated, in large part, by a shared desire to further economic and commercial integration. This economic integration agenda resulted in a noteworthy, albeit imperfect, agreement: the GCC Free Trade Area of 1983 (GCC Secretariat General n.d.). By eliminating intra-bloc customs duties on industrial, agricultural, and natural products, the agreement more than tripled intra-GCC trade within two decades (ibid). In 2003, this arrangement was upgraded into a customs union, with the primary objective of facilitating "Intra-GCC movement of goods without tariff or non-tariff barriers" and standardizing the treatment of domestic products (ibid). The union tried but has not yet succeeded in upgrading into a common market, given hiccups in agreeing on a shared currency and the equal treatment of GCC goods and businesses.

Despite the Council's official literature, some scholars have questioned the economic motives behind its formation, arguing that the GCC was not initially intended to be a trading bloc in and of itself. Given the perceived homogeneity of the bloc's markets and products, observers like Owen and Pamuk (1998) have maintained that these hydrocarbon-rich states have little to trade with each other. Like Sahib and Kari (2012), some studied the GCC's intra-bloc potential, concluding that current cooperation is insufficient. Others, like Alawadhi (2014), commendably used modelling techniques to estimate potential trade within the bloc and concluded that the GCC is not living up to its potential, at least within specific sectors. Additionally, the Council's slow progress towards greater economic integration, and a recent bitter internal rift, have made the material success of this quasi-union a topic of intellectual debate (Ulrichsen 2018). Some scholars even questioned the GCC's survivability following recent intra-bloc disagreements (Stephens 2021). Overall, few have explored intra-GCC trade dependence in detail, especially in recent years, and even fewer have done so using the realist's perspective (IMF 2018).

The GCC's recent shaky history is a case in point for the risks of trade dependence. Although the bloc's customs union agreement authorises the free movement of GCC nationals between member states' borders, favours domestic businesses and goods, and unifies product standards, the 2017-2020 diplomatic rift between Qatar and three fellow GCC member states of

Bahrain, Saudi Arabia, and the United Arab Emirates severely tested the Council's legitimacy. Publicly manifesting for the first time in 2014, the rift is believed to be primarily due to Qatar's failure to converge its foreign policy with that of Saudi Arabia and the UAE (Reuters 2014). By 2017, these disagreements culminated in a sudden and severe land, air, and sea blockade and a trade and economic embargo (Zweiri, Rahman, and Kamal 2021). Qatari nationals were expelled from these three GCC member states. Equally shockingly, all trade and commercial dealings with Qatar ceased over the span of a few months, including with fellow Arab League member Egypt.

The so-called Gulf Crisis of 2017-2020 was seemingly reconciled in January 2021 (Khalid 2021). Despite three and a half years of bitter animosity involving four out of six members, the GCC remains a customs union (Ramani 2021). The bloc is alive (if not well), evident by unceasing coordination meetings, particularly on the technical level of government. Whether these meetings have resulted in any meaningful recent cooperation is not the subject of this paper. Reconciled or not, this not-quite physical confrontation put into question the validity of the GCC as a union. It challenged the bloc's image as a relatively peaceful zone in a continuously contentious region. From a realist's point of view, the GCC has lost its credibility as a stable economic union. Other states within the bloc should take careful notice that belonging to a 'cooperation' council did not prevent a member state from undergoing a sudden and severe trade embargo by other fellow members. It is simply difficult, at this time, to ignore the vulnerabilities of heavy intra-GCC trade reliance.

An internal rift was not the only blemish in the bloc's recent history. In the past decade alone, the GCC states collectively suffered through and survived two of the worst downfalls in OPEC crude oil prices: the 2014-16 oil price crash and the decline in oil demand and prices accompanying the COVID-19 pandemic. These crises severely impacted the hydrocarbon-rich economies of the Gulf, curtailed government revenues, widened fiscal deficits, and possibly affected intra-bloc economic and trade relations. Not to mention, the global pandemic severely impacted the world's trade and supply chains by slowing down major economies and producers. It would be interesting to study how such external trade disruptions affected trade relationships within this Gulf union.

As Tanious (2018) argues, trade interdependence is a primary manifestation of economic interdependence and it "plays a major role in influencing the nature and content of inter-state relations" (p.4). Seeing that trade in goods is a telling barometer of economic cooperation in times of peace and conflict, this study focuses on trade relations to establish whether intra-GCC economic integration has changed over the past decade. The study also seeks to uncover how, if at all, was intra-bloc trade affected by several energy price drops, an internal rift, and the global pandemic. Understanding who has the most to lose and who has the least to gain from furthering bloc integration, at least in terms of trade, can shed light on the members' attitudes towards each other and the union. This study answers questions including but not limited to: Who has the most and least to gain from trade within the bloc? Did GCC trade integration increase or decrease over the past decade? What do current levels of trade dependence mean for future GCC integration?

GCC's Economic Disparities

The GCC economies share some similarities, but their economic development and industrial production patterns are not identical. As illustrated in Table 1, the GCC member states' economies vary considerably by size. Over the past decade, Saudi Arabia's economy was nearly

the size of all the other GCC states combined, with its gross domestic product (GDP) reaching \$700 billion in 2020 compared to the remaining bloc's collective \$717.9 billion. Excluding Saudi Arabia, the UAE's economy is nearly the size of all the remaining four smaller states combined. In 2020, the UAE's economic size reached \$358.9 billion, compared to the rest of the GCC's \$359 billion. The two second-largest economies within the union are Qatar and Kuwait (with \$144.4 and \$105.9 billion in GDP, respectively), while the two smallest are Oman and Bahrain (\$73.9 and \$34.7 billion, respectively).

The GCC states also vary significantly by population size. Over the past decade, more than half of the bloc's population resided in Saudi Arabia. In 2020, six out of ten GCC residents lived in Saudi Arabia, with 34.8 million Saudi residents out of 58.6 million total bloc residents. The UAE has the second-largest population with 9.9 million residents in 2020, housing more residents than the three smallest GCC countries combined (Kuwait, Qatar, and Bahrain). Although Oman has the relatively third-largest population (at 5.1 million residents in 2020), it has the second smallest economy. Conversely, Qatar has the third-largest economy, but the second smallest population (at 2.8 million in 2020). Kuwait and Bahrain's population ranks correspond with their GDP ranks, with Kuwait having the fourth largest population (4.3 million) and Bahrain having the smallest (1.7 million).

Table 1. GCC Members' Economic Scales

Country	GDP (Current US\$ billion)		Population (million)		Trade balance as a share of GDP	
	2010	2020	2010	2020	2010	2020
Bahrain	25.7	34.7	1.2	1.7	0.2	-5
Kuwait	115.4	105.9	3	4.3	35	11
Oman	65	73.9	3	5.1	26	5
Qatar	125.1	144.4	1.9	2.9	41	16
Saudi Arabia	528.2	700.1	27.4	34.8	28	8
United Arab Emirates	289.8	358.9	8.5	9.9	4	25
GCC Collective	1149.2	1418.1	45	58.7	23	13

Note: GDP and population estimates are sourced from the World Bank. Trade balance as a share of GDP is the author's calculations based on trade data from UN COMTRADE, CEPII, and WITS, and GDP data from the World Bank (both in current US\$).

Likewise, trade as a share of GDP varies significantly within the bloc. In 2010, relatively small Qatar boosted the most significant gains from trade. By 2020, the UAE was the biggest winner from trade (with a trade balance reaching 25 percent of GDP), followed by Qatar (16 percent) and Kuwait (11 percent). For a large economy with a massive export capacity, Saudi Arabia had one of the GCC's lowest gains from trade in 2020 (at eight percent). Bahrain is the only economy within the union with a trade deficit equivalent to five percent of its GDP. These variances in economic size are essential to keep in mind when considering the implications of intra-GCC trade dependence.

Methods

This study uses two primary logics to measure trade dependence across trade flows and commodity types. The first logic gauges the significance of each member state's intra-bloc trade as a share of its total. The second measures the significance of intra-bloc trade in relation to each member state's GDP. Although both measures will likely reveal similar patterns of dependence, they provide different insights. The rationale behind using these methods is discussed below. All indices are sourced from Mikic and Gilbert's (2009) insightful trade analysis handbook.

This study analyses annual trade data disaggregated by trade flow and partner country from 2010 to 2020. The trade data used in this study are sourced from UN Comtrade (2022), CEPII (2022), and WITS (2022). GDP and other economic estimates are sourced from the World Bank's open data portal (2022). Most GCC countries also have five to ten years' worth of trade data disaggregated by Harmonized System (HS) Codes, and these figures are used in the commodity-specific analysis.

Method 1: Trade as a Share of Total

Intra-GCC import, export, and total trade dependence are measured first as a share of each country's total imports, exports, and overall trade. This method is a more accurate indicator of the evolution in trade relations than measuring it in terms of value alone. When trade values ebb due to fluctuations in commodity prices, trade shares tell a more straightforward narrative of the durability of trade relationships.

Although the mathematical definitions vary slightly depending on the trade flow, the below three indices all measure the extent to which each GCC country is dependent on the rest of the bloc as destinations for its exports, as sources for its imports, or as both. Measuring intra-bloc trade as a share of the total also illustrates the GCC's vulnerability to intra-bloc trade disruptions. The mathematical definitions, slightly modified from Mikic and Gilbert's (2009, 44-49), are as follows:

$$GCC \text{ Import Share} = \frac{\sum_{Gg} M_{Gg}}{\sum_{Wg} M_{Wg}} \times 100$$

$$GCC \text{ Export Share} = \frac{\sum_{gG} X_{gG}}{\sum_{gW} X_{gW}} \times 100$$

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

X denotes exports, **M** denotes imports, **g** is the individual GCC country under study (importer/exporter), and **G** is the rest of the bloc (the remaining five export destinations/import sources). **W** is **g**'s entire trade partners, including **G** (i.e., the world; all countries with which **g** trades). Total trade is measured as domestic exports plus imports. This study does not account for re-exports in the total trade equation as re-export data do not consistently exist for all GCC economies.

This method also measures each country's commodity-specific dependence by isolating a country's intra-bloc imports or exports of a particular commodity and dividing it by its total imports or export of that commodity from all world partners.

Method 2: Trade as a Share of Domestic Production

The second, more intricate method of measuring trade dependency is as a share of GDP. Specifically, this paper uses the import penetration, the export propensity, and the trade dependency indices to further evaluate intra-GCC trade reliance. Since a country can be vulnerable whether it relies on volatile partners for imports or exports, this study defers to the trade dependence index to ultimately evaluate the union economies most and least susceptible to trade shocks within the GCC. However, the import and export indices are used to give a more comprehensive assessment of which countries are more dependent on the bloc as import sources versus as export destinations. Although these indices share similar reasoning, their calculations are slightly different, as detailed below.

The import penetration index can be used to measure a country's dependence on one or more partners to meet its domestic demand and thereby the potential economic cost of shocks affecting production in these partner economies (ibid, 28–29). The index is also intended to measure how much of a country's domestic demand is met by imports. The import penetration index is not a self-sufficiency index when used at the aggregate level. Still, it is a telling indicator of the economy's overall reliance on imports. As used in this study, the index measures each GCC country's imports from the rest of the bloc as a share of its total domestic demand, as shown below. Domestic demand is calculated as domestic production (GDP), minus domestic exports to the world, plus imports from the world.

$$GCC \text{ Import Penetration} = \frac{\sum_G M_{Gg}}{GDP_g - \sum_W X_{gW} + \sum_W M_{Wg}} \times 100$$

Similarly, the export propensity index can be a meaningful measure of a country's dependence on regional trade partners. In this study, the index is used to gauge the extent to which domestic producers in a given GCC country are dependent on consumers in the rest of the bloc. This study does not account for re-exports primarily because these goods are not domestically produced, and including them would skew the index for re-export-heavy economies (ibid, 30–31). Re-exports are also not included because the data do not exist for all GCC countries for the entire period under study. The export propensity index for the GCC is calculated as the sum of a country's exports to the rest of the bloc divided by the country's GDP:

$$GCC \text{ Export Propensity} = \frac{\sum_G X_{gG}}{GDP_g} \times 100$$

Finally, as used in this study, the trade dependence index is the ultimate measure of the economic cost of regional trade reliance (ibid, 26–27). This index measures the sum of total trade destined for or sourced from the GCC as a share of a country's GDP. The greater the ratio, the more critical intra-bloc trade is for a given economy:

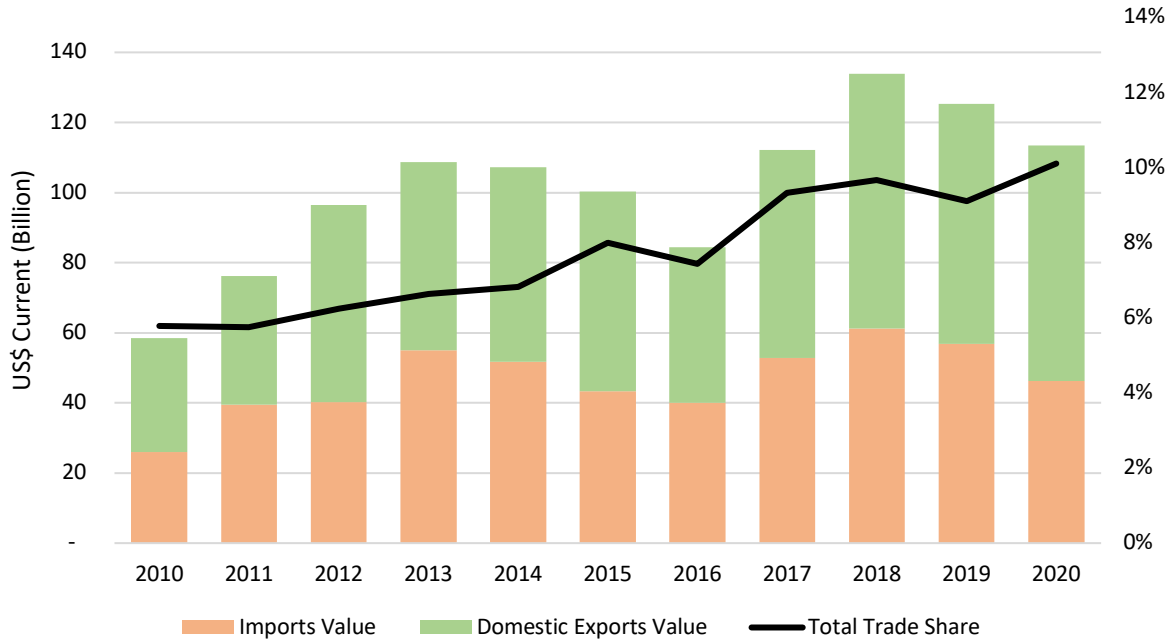
$$GCC \text{ Total Trade Dependence} = \frac{\sum_G X_{gG} + \sum_G M_{Gg}}{GDP_g} \times 100$$

Results and Analysis

Intra-GCC Trade Overview

As shown in Figure 1, despite occasional setbacks, intra-GCC trade has been on the rise since 2010, both in terms of trade value and total trade share. In 2010, six percent of the member countries' total trade was either sourced from or destined to fellow bloc members, reaching over \$58.5 billion. By 2020, intra-bloc total trade share rose to 10 percent, amounting to over \$113.4 billion, an 11-year increase of 94 percent. Within this timeframe, 2020 marks the peak of GCC trade integration over the past decade in terms of the total trade share, but 2018 saw the height of trade in terms of value at \$133.9 billion.²

Figure 1. *Intra-GCC Total Trade, US\$ Current Values, and Shares, 2010-2020*



Source: This figure and all others in the paper are visualizations of the author's calculations based on compiled trade data from UN Comtrade, CEPII, and WITS databases.

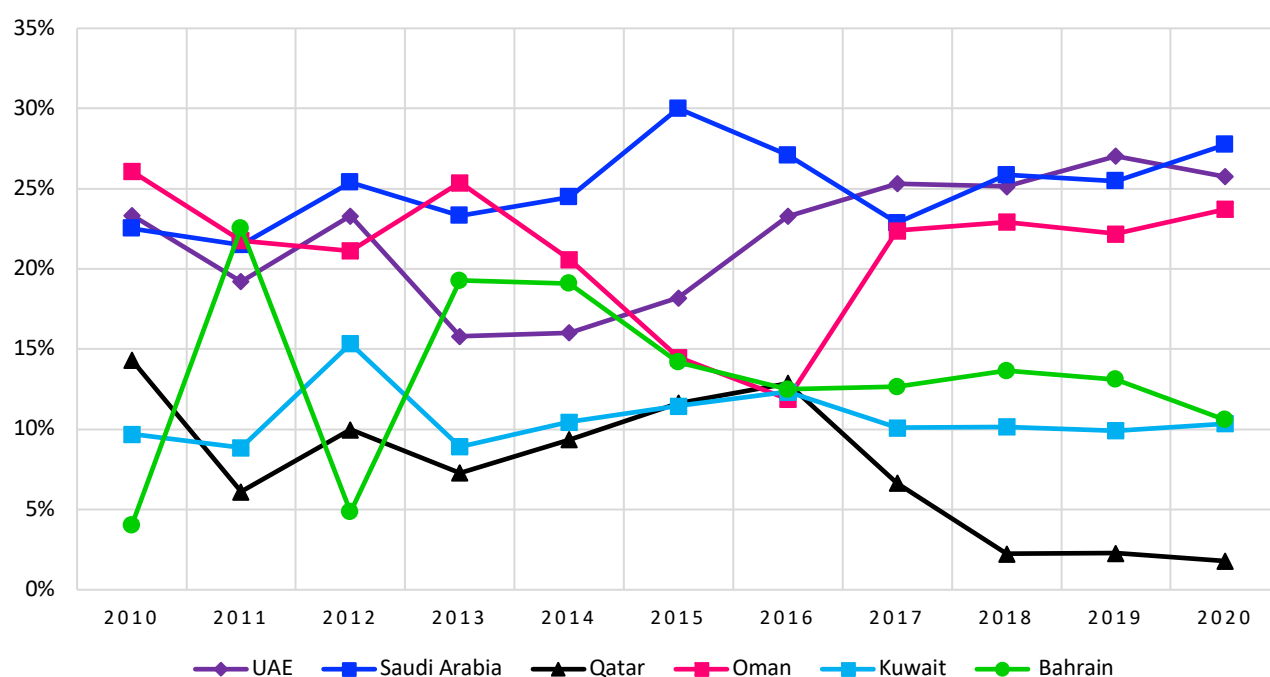
Note: The graph above does not account for re-exports because data does not exist for all countries for all years. The discrepancy between imports and exports also implies that some intra-GCC exports are simultaneously re-exported by other member states, i.e., goods-in-transit.

² For comparison, intra-ASEAN total trade in goods share was 22 percent in 2019, with a total trade dependency of 20 percent. The GCC is around half the economic size of ASEAN (ASEAN Secretariat 2020).

Biggest Contributors to Intra-Bloc Trade

The most significant contributors to intra-GCC trade are its biggest markets: the UAE and Saudi Arabia (see Figure 2). This fact is not unusual given the wide variations in economic sizes within the GCC; the two largest countries have more consumers and a larger production capacity than the rest of the bloc. Saudi Arabia is the union's biggest importer; it is the most lucrative market for domestically produced GCC goods. On average, between 2010 and 2020, Saudi Arabian imports were a quarter of all GCC imports. The UAE follows Saudi Arabia as the second-largest importer, receiving 22 percent of the union's imports over the past 11 years. The UAE is closely followed by Oman (21 percent), Bahrain (13 percent), and Kuwait (11 percent). Qatar is the smallest market for GCC imports, particularly following the rift, receiving less than two percent of intra-bloc imports by 2020.

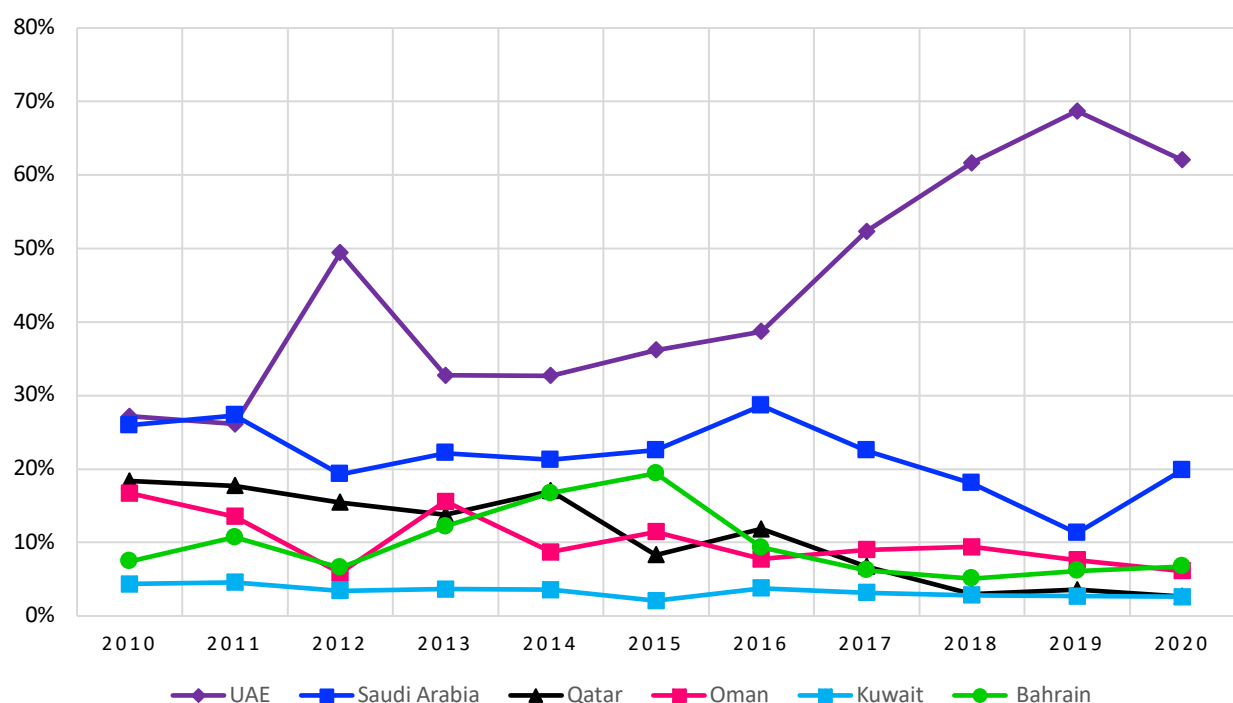
Figure 2. *Intra-GCC Import Shares, Largest to Smallest Importers from the Bloc*



Note: The calculation visualized above is known as the regional import share, where the value of each country's imports from the GCC is divided by the total intra-GCC import value (all shares, per year, add up to 100 percent).

As for domestic exports, the UAE is the bloc's largest supplier of goods. As seen in Figure 3, in recent years, over half of the domestic exports traded within the bloc were sourced from the UAE alone, even without counting re-exports which make up a significant portion of the Emirates' total exports to the bloc (see note below on re-exports). Saudi Arabia is the second-largest exporter in the GCC, supplying 22 percent of intra-bloc domestic exports over the past 11-years, followed by Qatar (11 percent) and Oman and Bahrain (10 percent each). Kuwait is the smallest exporter to the GCC, supplying an average of three percent of domestic intra-bloc exports.

Figure 3. Intra-GCC Export Share, Largest to Smallest Exporters to the Bloc

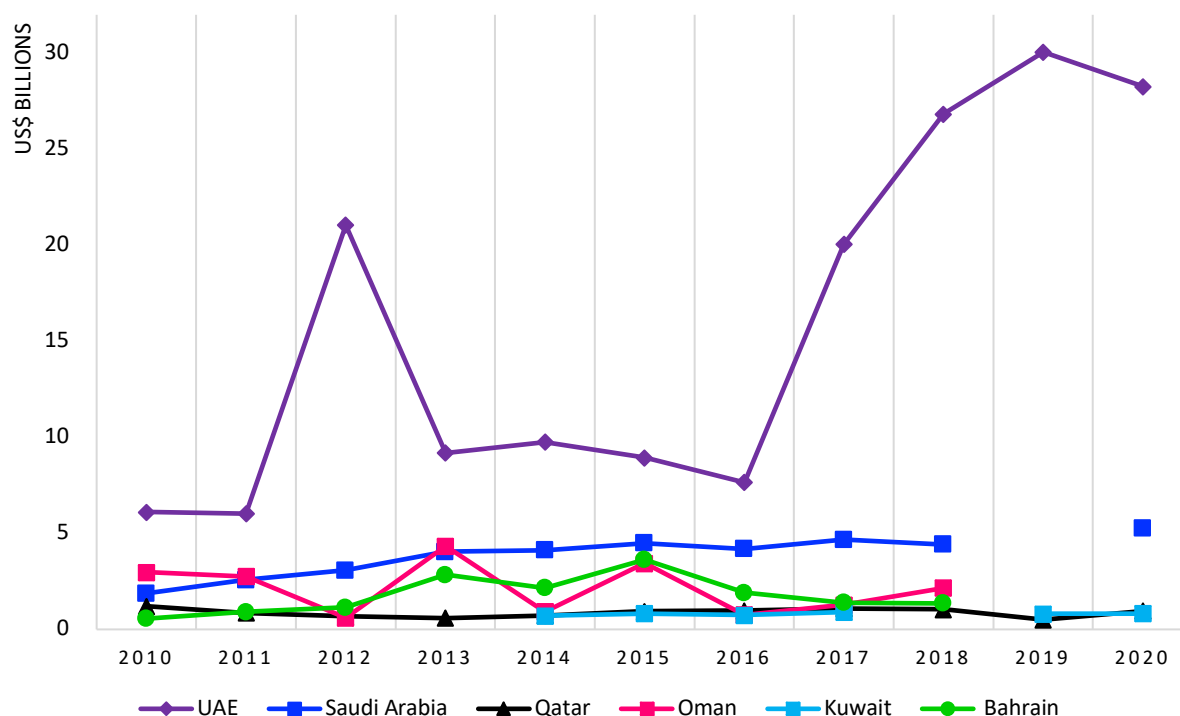


In terms of total trade, the UAE is, by far, the largest trader in the GCC. Starting in 2015, the UAE overtook Saudi Arabia as the largest exporter and had contributed an average of 35 percent of intra-bloc total trade throughout the timeframe (2010-2020). Saudi Arabia is the second-largest contributor to intra-bloc total trade (22 percent 11-year average), followed by Oman (15 percent), Bahrain (11 percent), Qatar (eight percent), and Kuwait (six percent).

A Note on Re-Exports

Re-exports, classified as foreign goods imported to be rerouted to foreign markets with minimal added value, are an intriguing facet of intra-bloc trade behaviour. However, the data do not exist uniformly for all GCC countries to contribute to a meaningful comparison. Only the UAE and Qatar have data on re-exports for the entire decade under study, with the rest of the bloc reporting less uniformly on this type of trade activity. As demonstrated in Figure 4, which graphs existing re-exports data for each GCC country, the UAE is unambiguously the largest intra-bloc re-exporter. It houses the largest seaport within the union and acts as the main redistributor of imported foreign goods. If re-exports were accounted for in this study, the UAE's intra-bloc total trade share would rise significantly. It is important to note that while re-exports are not counted in domestic export calculations in this study, they are inevitably part of the receiving countries' import calculations. For instance, re-exports from the UAE to Bahrain would not appear in the value of the UAE domestic exports to the GCC, but they appear in the value of Bahrain's imports from the GCC because these imported goods were 'sourced' from the UAE.

Figure 4. Intra-GCC Re-Exports, US\$ Current Value, 2010-2020



Top Trade Partners

For countries with high overlap in export categories and industrial productions, the GCC states are among each other's top trade partners, proving there is still a lot to be traded (or redistributed) within the bloc. The UAE and Saudi Arabia are among the rest of the GCC's highest-ranking trade partners globally. Notably, the two largest countries rank among each other's top ten global partners (i.e., they are the most mutually interdependent, but their bilateral trade is not significant in GDP terms).

In terms of imports, in 2020, the UAE ranked as the top import partner for both Bahrain and Oman out of around 100 total trade partners. The UAE was also Kuwait's and Saudi Arabia's third-largest import partner. Meanwhile, Saudi Arabia ranked Bahrain and Kuwait's fifth, Oman's sixth, and the UAE's eighth top import partner in 2020. Because of their relatively smaller sizes, the other GCC states do not rank well among the UAE and Saudi Arabia's global partners.

In terms of exports, Saudi Arabia and the UAE compete on a global scale within the ranks of other GCC states. In 2020, Saudi Arabia was Bahrain, the UAE, and Kuwait's second-largest export partner and Oman's fifth largest. At the same time, the UAE was Saudi Arabia's second, Bahrain's third, Oman and Kuwait's fourth, and Qatar's ninth export partner. Again, the smaller GCC states do not rank among the two biggest economies' top five partners, but Kuwait and Oman are among the UAE's top ten, as is Bahrain for Saudi Arabia.

Qatar is the exception to this trend. While Saudi Arabia and the UAE used to be among the smaller country's top ten trading partners before the Gulf Crises, they were not significant

partners by 2020. While Oman and Kuwait intensified trade with Qatar following the onset of the rift, they did not rank among Qatar's top ten by 2020, either.

Intra-GCC Import, Export, and Total Trade Dependence

To gauge intra-GCC total trade dependence, this paper looks at each country's trade with the rest of the bloc as a share of its total, in addition to the results of the trade dependence index. For a more nuanced aggregate-level assessment, import and export dependence are also measured for each country. Dependence rankings are almost identical between the indices within each trade flow. Since the trade dependence, import penetration, and export propensity indices are more telling measures of a country's reliance on trade partners than trade as a share of the total, the rankings of the dependency indices offset the rankings of the trade share indices. Moreover, the rankings of the trade dependence index offsets those of the import penetration and export propensity indices.

Table 2 details intra-bloc total trade shares and dependency per GCC country and as a collective union. Table 3 does the same for intra-bloc import shares and import penetration, while Table 4 illustrates intra-bloc export shares and export propensity. Colour shades correspond to values; the darker the shade, the higher the dependency on the GCC.

Table 2. Intra-GCC Total Trade Share and Trade Dependence Index (%)

Year	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC Collective
Total Trade Share							
2010	11	5	22	10	4	4	6
2011	32	4	19	7	4	4	6
2012	18	6	15	8	4	6	6
2013	44	5	25	7	5	4	7
2014	44	6	19	9	5	4	7
2015	57	7	20	9	7	5	8
2016	36	9	15	12	7	5	7
2017	35	8	29	8	7	8	9
2018	34	8	31	3	7	10	10
2019	36	8	26	4	6	9	10
2020	43	10	26	3	8	9	10
Mean	35	7	22	7	6	6	8
Trade Dependence Index							
2010	13	3	19	8	3	5	5
2011	45	3	18	5	3	5	5
2012	18	5	14	7	3	10	6
2013	53	4	25	6	3	7	7
2014	57	5	17	7	3	7	6
2015	55	5	16	6	4	8	7
2016	28	6	11	7	4	7	6
2017	29	6	21	5	4	12	8
2018	32	6	23	2	4	14	8
2019	30	6	20	2	3	15	8
2020	27	6	20	2	4	15	8
Mean	35	5	18	5	3	9	7

Table 3. Intra-GCC Import Shares and Import Penetration Index (%)

Year	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC Collective
Import Shares							
2010	7	11	34	16	6	3	7
2011	50	14	36	14	7	4	9
2012	14	25	30	16	7	4	8
2013	57	17	41	15	8	3	10
2014	49	17	36	16	8	3	9
2015	38	16	22	15	7	3	8
2016	34	16	21	16	8	3	8
2017	39	16	45	12	9	5	11
2018	41	17	54	4	12	6	12
2019	40	17	41	4	10	5	10
2020	41	17	41	3	10	5	10
Mean	37	17	36	12	8	4	9
Import Penetration Index							
2010	4	3	14	5	2	2	3
2011	37	5	16	3	2	2	4
2012	7	6	13	5	2	3	4
2013	34	5	20	4	2	3	5
2014	33	6	15	5	2	2	4
2015	18	5	9	4	2	2	3
2016	14	5	7	4	2	3	3
2017	17	5	16	3	2	4	4
2018	19	6	19	1	3	6	5
2019	17	5	16	1	2	5	4
2020	13	5	16	1	2	4	4
Mean	19	5	15	3	2	3	4

Table 4. Intra-GCC Export Shares and Export Propensity Index (%)

Year	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC Collective
Export Shares							
2010	15	2	15	8	3	4	5
2011	18	2	11	6	3	4	4
2012	22	2	6	7	3	8	5
2013	33	2	15	6	3	5	5
2014	39	2	9	7	3	5	6
2015	80	2	18	6	6	7	8
2016	39	4	11	9	7	6	7
2017	30	3	16	6	6	10	8
2018	26	3	16	3	4	12	8
2019	30	3	14	3	3	12	8
2020	45	4	13	4	7	12	10
Mean	34	3	13	6	4	8	7
Export Propensity Index							
2010	9	1	8	5	2	3	3
2011	14	1	6	4	1	3	3
2012	12	1	4	5	1	7	4
2013	20	1	9	4	2	5	3
2014	28	1	5	5	2	5	3
2015	36	1	8	3	2	6	4
2016	13	2	5	3	2	5	3
2017	10	2	7	2	2	8	4
2018	10	1	7	1	2	11	4
2019	11	1	6	1	1	11	4
2020	13	2	6	1	2	12	5
Mean	16	1	6	3	2	7	4

Note: The author's calculations are based on trade data from UN Comtrade, CEPII, and WITS. The export and total trade calculations above exclude re-exports, as they can skew the index for re-export heavy economies.

Least Intra-GCC Trade-Dependent: Saudi Arabia, Qatar, and Kuwait

Between 2010 and 2020, Saudi Arabia, Qatar, and Kuwait were the GCC states least dependent on the bloc for trade. By 2020, however, Qatar was the least dependent, with GCC trade making up only three percent of its total and two percent of its GDP. By comparison, Saudi Arabia's trade with the bloc reached four percent of its GDP, and Kuwait's reached six percent. While Qatar's intra-GCC trade reliance declined significantly over time (especially after 2017), Saudi Arabia and Kuwait maintained their low degrees of reliance on the bloc, with their indices and shares of trade only increasingly mildly over this decade (see Tables 2, 3 and 4).

Most Intra-GCC Trade-Dependent: Bahrain, Oman, and the UAE

Bahrain, Oman, and the UAE are the relatively most dependent economies on the bloc for trade. In 2020, the value of Bahrain's total trade with fellow states was equivalent to 27 percent of its GDP, while Oman's reached 20 percent, and the UAE's amounted to 15 percent. Bahrain is the most GCC-dependent economy, both in terms of import and export shares and dependency

indices. By 2020, 45 percent of Bahrain’s exports were destined for the GCC, and 41 percent of its imports were sourced from the bloc. Meanwhile, 41 percent of Oman’s imports and 16 percent of its exports were GCC-bound. Although only 12 percent of the UAE’s exports and five percent of its imports in 2020 were GCC-bound, relatively, it is the third most intra-GCC trade-dependent economy. Over time, Bahrain and Oman maintained their positions as the two most dependent on their fellow members for trade, even though their trade dependency index fluctuated over time (see Table 2). Meanwhile, the UAE’s intra-GCC total trade dependence increased over time, reaching an all-time high in 2019 and 2020. When considering Bahrain and Oman’s bilateral trade patterns, it is apparent that they are more interdependent on the UAE than any other country in the GCC.

Disaggregated Rankings

For brevity, the above section details the most and least intra-bloc dependent GCC economies in terms of *total trade* over the past 11 years. Yet, this ranking is not necessarily the same when considering import or export dependence alone. As summarized in Figure 5 below, the results for Saudi Arabia and Qatar are consistent (on average, they are among the least dependent either in terms of exports, imports, or total trade), and so are the results for Bahrain and Oman (they are consistently among the most dependent regardless of trade flow). However, the UAE and Kuwait’s rankings differ by trade flow. While in terms of total trade, Kuwait is relatively the third least dependent, it is slightly more dependent on the bloc for imports than exports. Meanwhile, in terms of total trade, the UAE is relatively the third most intra-GCC trade-dependent economy, but it is more dependent on the bloc as an export destination than an import source.

Figure 5. *Least and Most Intra-Bloc Trade Dependent Members, by Trade Flow, 2010-2020 Average*

Most Dependent	Bahrain	Bahrain	Bahrain
	Oman	UAE	Oman
	Kuwait	Oman	UAE
	Qatar	Qatar	Kuwait
Least Dependent	UAE	Saudi Arabia	Qatar
	Saudi Arabia	Kuwait	Saudi Arabia
	Imports	Exports	Total Trade

Commodity-Specific Trade Dependence

The following section explores each of the six countries' intra-GCC import and export shares by commodity type between 2010 and 2020. Since some countries were missing detailed data for this timeframe, the calculations are based on monthly averages for the available years³. Because monthly averages were used instead of actual trade values, the figures below are estimates of the degree of commodity-specific dependence. Bahrain and Qatar have detailed data for ten out of the 11-year timeframe, Oman and Saudi Arabia have nine years' worth of data, Kuwait has eight, and the UAE has six years for imports and five for exports. The lack of detailed data for the UAE is a limitation since UAE's aggregates are only representative of this important regional player's trade patterns for about half of the studied timeframe. Nonetheless, the monthly average calculation is a solution for overcoming the nonuniformity of data availability across GCC countries.

Table 5 presents the average percentage of goods sourced from and destined for the bloc, disaggregated into 16 commodity categories. The cells are shaded on a scale corresponding to their value; the highest dependency is solid green, while the lowest is solid red. These disaggregated figures reveal a richer portrait of intra-GCC trade dependence.

Although Oman and Bahrain share similar overall import dependence ratios, Oman appears to be far more exposed as its dependence extends across multiple import categories. Bahrain only has a 40 percent or higher dependence rate on the bloc for mineral products (71 percent share) and stones and glass (54 percent), but Oman is dependent on the bloc for more than 40 percent of its imported foodstuffs, mineral products, chemicals, plastics and rubbers, stones and glass, metals, wood, textiles, and more. Meanwhile, in line with the overall trade dependence analysis, Qatar and Kuwait were moderately dependent on the bloc, and Saudi Arabia and the UAE were the least dependent across import categories.

As a whole and in terms of imports, the GCC members are most dependent on each other for mineral products (35 percent), plastics and rubbers (20 percent), metals (10 percent), animals and animal products (16 percent), and prepared foodstuffs (15 percent). It is important to note that these imports, although sourced from the GCC, are likely not all GCC-produced, as imports account for both domestic exports and re-exports of the partner country. Nonetheless, these rates imply excessive intra-GCC import dependency within specific categories.

³ For instance, Oman has detailed trade by HS description and code from 2010-2018. To overcome this data limitation, the nine years aggregates for Oman were divided by 108 months (9 years x 12 months = 108 months) to reveal a monthly average value per commodity, so that the values are equitable with the rest of the bloc (whose aggregates were divided by the number of years available x 12).

Table 5. The Average Percentage of Goods Sourced from or Destined to the GCC, 2010-2020 (%)

HS Category	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC Total
Imports							
Animals & Animal Products	24	21	34	26	10	14	16
Vegetable Products	13	8	22	14	5	3	6
Prepared Foodstuffs	24	20	61	27	13	8	15
Mineral Products	71	55	47	55	30	24	35
Chemicals & Allied Industries	14	20	43	15	8	8	11
Plastics & Rubbers	32	25	51	20	12	19	20
Raw Skins, Leather, & Furs	1	1	50	1	0.5	0.2	1
Wood & Wood Products	20	23	48	16	9	6	11
Textiles	3	10	54	4	3	1	3
Footwear & Headgear	2	1	48	3	0.3	0.2	1
Stone & Glass	54	51	65	14	33	2	6
Metals	34	25	47	23	23	10	19
Machinery & Electrical	6	5	30	4	2	1	3
Vehicles, Aircraft, & Vessels	1	2	7	2	2	0.04	1
Miscellaneous	7	7	36	4	3	1	4
Not elsewhere specified	17	5	26	0.1	6	0.004	0.4
Exports							
Animals & Animal Products	63	40	53	53	74	38	53
Vegetable Products	62	48	62	69	48	23	28
Prepared Foodstuffs	79	60	38	72	49	23	28
Mineral Products	17	0.01	4	4	0.05	1	1
Chemicals & Allied Industries	26	13	14	9	9	39	18
Plastics & Rubbers	53	16	26	6	8	14	11
Raw Skins, Leather, & Furs	81	34	60	26	5	41	37
Wood & Wood Products	76	60	74	49	37	39	40
Textiles	51	48	40	56	24	29	30
Footwear & Headgear	96	66	41	57	78	55	56
Stone & Glass	75	64	65	20	47	10	11
Metals	37	46	43	38	31	25	29
Machinery & Electrical	78	58	66	44	54	27	30
Vehicles, Aircraft, & Vessels	51	29	43	39	64	16	25
Miscellaneous	70	58	66	24	53	27	31
Not elsewhere specified	76	15	2	4	19	0.001	0.05

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

In terms of exports, Bahrain is by far the most dependent on the bloc across multiple commodities. Over 70 percent of Bahrain's machinery and electrical exports, prepared foodstuffs, and stones and glass are destined for the GCC. Oman also has over 60 percent dependence on the GCC as an export market for its machinery and electrical, stones and glass, and vegetable exports. Although a definitive answer is not possible using trade data alone, some of these goods are likely meant to be re-exported since they are primarily destined for the UAE.

Other GCC members are relatively less dependent on the GCC as an export destination, but some commodity-specific dependence rates are noteworthy. For instance, the UAE's 23 percent dependence on the bloc as a destination for domestically prepared foodstuffs is not insignificant when considering that these domestic exports average \$206 million a month. Similarly, while Saudi Arabia may not be known as a food exporter globally, it is the second-largest within the GCC, as 49 percent of Saudi processed food exports are destined for the bloc (\$63 million monthly average).

Discussion

Major Disruptions to Trade

The energy price crash of 2014-16, the Gulf Crisis beginning in 2017, and the COVID-19 pandemic were all significant events in recent GCC history. Markedly, while these events caused a decline in intra- and extra-GCC trade values, they led to an immediate or eventual increase in intra-GCC trade dependence. Figure 6 illustrates this inverse relationship, showcasing both annual changes in the bloc's total intra- and extra-trade values and the annual share of intra-bloc trade. Despite declines in the monetary value of trade within the bloc, for the most part, intra-GCC trade share ultimately rose during these crises (i.e., some GCC states grew slightly more reliant on each other). Figure 7 is a close-up illustration of the effects of crises on intra-GCC trade shares, showing that imports shares are affected differently from exports during external crises.

Figure 6. *Annual Change in Intra- and Extra-GCC Total Trade Value Vs. Annual Intra-GCC Total Trade Share, 2011-2020*

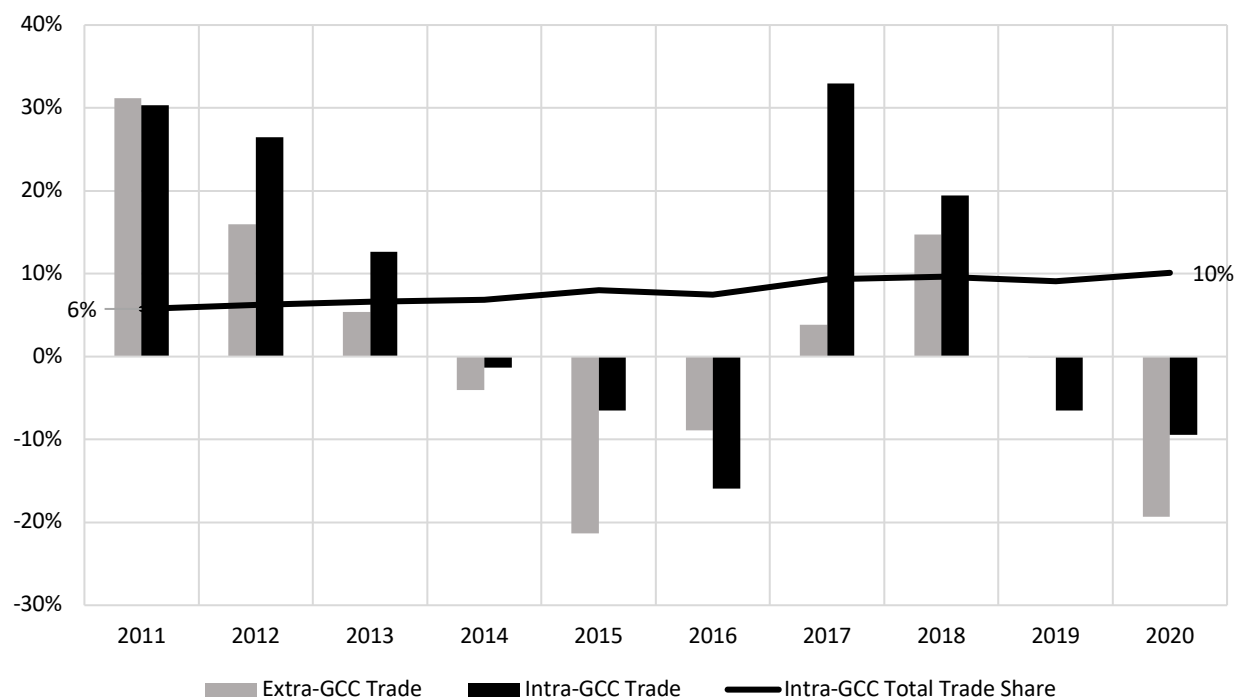
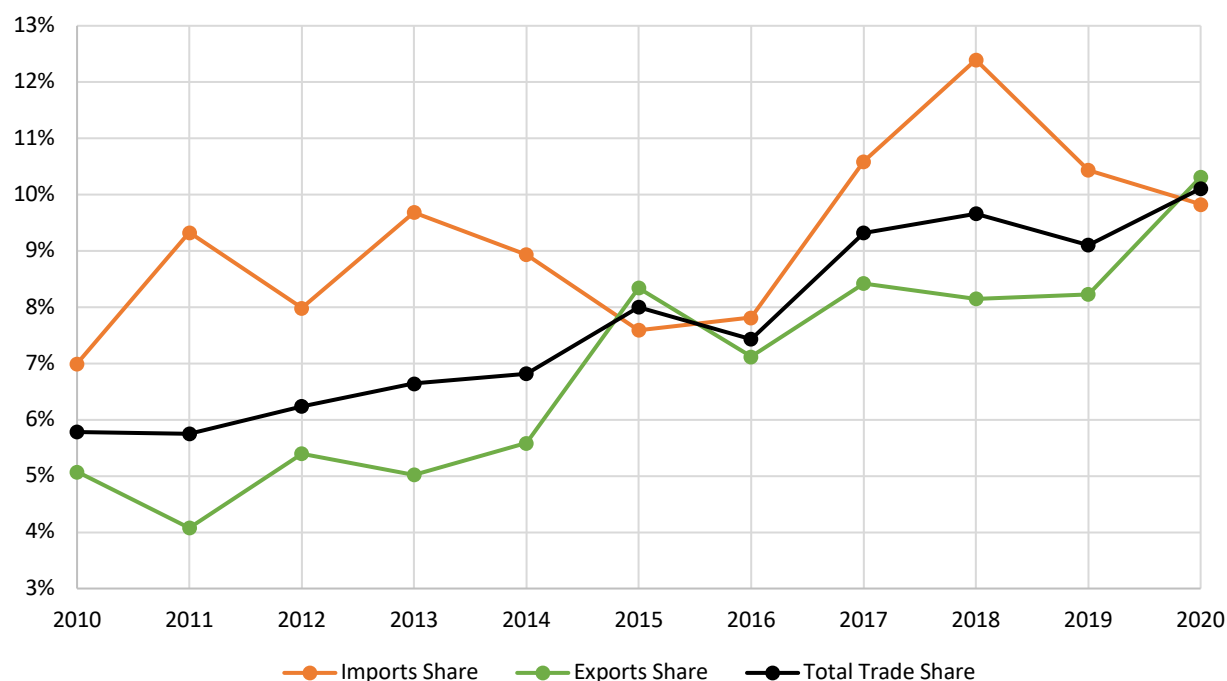


Figure 7. Intra-GCC Import, Exports, and Total Trade Shares, 2010-2020



External Trade Disruptions: 2014-16 Energy Price Crisis and the COVID-19 Pandemic

These two external trade shocks had similar but relatively minimal effects on intra-bloc trade compared to their impact on extra-bloc trade (see Figure 6). Although the 2014-16 OPEC oil price crash led to a decline in extra- and intra-GCC trade values, it also led to a temporary incline in the intra-GCC total trade share from seven percent in 2014 to eight percent in 2015, and then back to seven percent in 2016. Similarly, the COVID-19 pandemic and related OPEC oil price downfall led to a decline in extra- and intra-GCC trade values but an increase in intra-GCC total trade share, which rose from nine percent to ten percent between 2019 and 2020.

As shown in Figure 7, the rise in the share of intra-bloc total trade during these crises is primarily driven by rising export shares, which increased while import shares declined. In 2014 and 2020, the value of goods sourced from the bloc (over a quarter of which are minerals) fell more than the value of goods imported from the rest of the world (not mineral heavy). Meanwhile, export shares increased because the prices of intra-GCC goods destined for the bloc (almost 90 percent of which are non-minerals) declined minimally compared to a significant decline in the prices of goods exported to the rest of the world (over half of which are minerals). In times of low oil prices, some GCC states become more dependent on each other as export destinations than import sources, which usually equates to greater overall dependence.

Internal Trade Disruptions: The Gulf Crisis

Although detrimental to Qatar's intra-bloc trade, the Gulf Crisis did not cause a decline in the union's GDP, intra- or extra-bloc trade, or shares. In fact, all GCC countries, save Qatar, increased their dependence on each other following the onset of the Gulf Crisis in 2017. While

Qatar's contributions to the bloc's trade declined, the rest of the GCC member states increased trade with each other. Ironically, at a time when the bloc should have been learning from Qatar's experience with high exposure to intra-bloc trade dependence, the rest of the GCC, particularly the smaller members, were deepening their intra-bloc trade relations, mainly with the two largest economies in the union (the primary instigators of the embargo against Qatar).

To paint a picture of the severity of the embargo on the embargoed state's intra-bloc trade: Qatar's imports from Saudi Arabia, the UAE, and Bahrain declined by over 98 percent, from \$4.6 billion in 2016 to \$80.5 million by 2018. In 2016, prior to the crisis, the UAE and Saudi Arabia ranked among Qatar's top trading partners; the UAE alone ranked as Qatar's fourth top import partner and fifth top export partner. By 2018, imports from Bahrain and Saudi Arabia dropped to insignificant levels, while exports halted completely. Qatari exports to the UAE declined by over 70 percent during this period, with natural gas exports to the UAE largely persisting despite the embargo. To offset the loss in regional trade, Qatar increased its imports from the two neutral GCC states, Oman and Kuwait, by 163 and 84 percent respectively, between 2016 and 2018. In the same period, Qatar's exports to Oman and Kuwait rose by 129 and 22 percent. Qatari trade data additionally show that despite the reconciliation, Qatar's imports from the UAE, Saudi Arabia, and Bahrain in 2021 were just two percent of the pre-rift value (Planning & Statistics Authority 2021). By 2021, in terms of total trade, Qatar's reliance on the bloc remained equivalent to two percent of its GDP (same as in 2020).

Conclusions

Intra-GCC trade dependence is growing. Intra-bloc trade is not insignificant; in 2020, it contributed to eight percent of the GCC's collective GDP, equivalent to \$113 billion (more than the size of Bahrain and Oman's economies combined). Between 2010 and 2020, the GCC countries have grown more dependent on each other for trade, largely thanks to the rapid growth in Bahrain, Oman, and the UAE's intra-bloc trade activity, which offset the rest of the bloc's subdued trends. Kuwait's dependence only grew marginally, while Saudi Arabia has maintained its relatively low level of dependence. Qatar is the only bloc member that went against the trend when it was forced to lower its reliance on the GCC's largest economies following the 2017-20 embargo. Given their relatively considerable size, Saudi Arabia and the UAE contribute to over 70 percent of intra-bloc trade, with the UAE alone supplying over 40 percent over the past decade. Saudi Arabia and the UAE are each other's top trade partners within the GCC, and they are the top intra-bloc partners to all GCC states except Qatar.

Trade interdependence is uneven among GCC states. Trade dependency measured as a share of the total is negatively related to an economy's relative size within the bloc. Over the past decade, Saudi Arabia and the UAE, the two largest GCC economies, had the lowest intra-GCC total trade share (only six percent of their total trade), even though they contributed the most to trade within the bloc. The two mid-sized economies, Qatar and Kuwait, had a median intra-GCC trade share of seven percent. Meanwhile, for Oman and Bahrain, the two smallest economies, intra-GCC trade significantly contributed to 22 percent and 35 percent of their total.

Trade dependency measured as a share of GDP is not perfectly linked to an economy's size. The UAE, the second largest economy in the bloc, is the third most dependent on the bloc for trade as a share of its GDP, primarily as a destination for exports. For the rest of the bloc, trade dependency as a share of GDP puts them in similar ranks as trade dependency as a share of

the total, with Saudi Arabia, Qatar, and Kuwait as the least dependent and Bahrain and Oman as the most dependent. By 2020, the country least dependent on GCC-bound trade was Qatar (intra-bloc total trade contributed to two percent of its GDP), followed by Saudi Arabia (four percent), Kuwait (six percent), the UAE (15 percent), Oman (20 percent), and Bahrain (27 percent).

High commodity-specific dependence. A closer look at commodity-specific dependence reveals a grimmer picture for the smaller GCC states; they are critically vulnerable to intra-bloc trade shocks. The larger economies are not invulnerable either. The two relatively smallest economies (Oman and Bahrain), the most dependent on the bloc for imports, receive more than one-third of their imported mineral products, plastics and rubbers, metals, stones, and glass from the bloc. Meanwhile, the two largest economies (Saudi Arabia and the UAE) that contribute the most to intra-bloc exports, are dependent on the bloc as destinations for over a quarter of their domestically produced machinery, metals, and food.

The GCC food industry is especially bloc-bound. Over one-third of the food grown, raised, or produced in the GCC was destined for the bloc. Similarly, over the past decade, about a quarter of the four smallest states' imported food was sourced from the bloc. In times of intra-GCC harmony, this interdependence can be an asset, but in times of intra-bloc tension, this could be a major vulnerability to both producers and consumers.

Oman and Bahrain would be severely affected if their trade with the rest of the GCC were impacted. Oman relies on the bloc to supply nearly half of 10 imported commodity groups, including almost two-thirds of imported food. Bahrain similarly relies on the bloc to provide certain commodities, including a quarter of its imported food. If they were to experience an intra-bloc embargo similar to Qatar's, they would not fare it as well; Qatar has much better gains from trade and one of the GCC's largest trade surplus as a share of GDP to help it withstand trade disruptions.

External and internal trade disruptions increase intra-bloc collective dependence. Although trade values declined, intra-bloc trade as a share of the total was not negatively affected during external trade shocks. However, intra-bloc imports and export shares were affected differently during external shocks, such as the COVID-19 pandemic and the 2014-16 oil price crash. GCC states become collectively less reliant on each other as import sources than export destinations when energy prices crash. This is mainly because the value of extra-bloc mineral-heavy trade declines more significantly than that of intra-GCC trade in other categories.

While the three-and-a-half-year embargo imposed on Qatar by three fellow GCC members more than halved Qatar's dependence on the bloc for trade, it had the opposite effect on the rest of the GCC. The smaller member states did not heed Qatar's vulnerability due to its former high reliance on the union. Instead, they increased their trade dependence on the GCC's two largest economies. Following the embargo, Qatar has become the least intra-bloc dependent country.

Without Saudi Arabia, the GCC union is unlikely to achieve greater integration. Bahrain and Oman, the most GCC-trade-reliant economies, have the most incentive but the least economic power to encourage greater intra-bloc trade liberation and cooperation. The UAE has both the motivation and economic leverage to lobby for greater bloc integration. Qatar and Kuwait are not as incentivized because they currently have little to lose or gain from intra-bloc trade. Meanwhile, Saudi Arabia's maintained low trade dependence on the bloc has the gravest implications for the union's future integration. Housing the GCC's biggest markets, producers, and consumers, Saudi Arabia gains the least from intra-bloc trade, as a share of its GDP, given its relatively larger economic size. Based on the gains from trade alone, the Saudi kingdom has

the least incentive to push for further intra-bloc trade integration. From a blunt realist's perspective, Saudi Arabia's current level of intra-bloc trade is not nearly enough to discourage friction with other members within the bloc. This reality does not bode well for the GCC.

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