Mendel University in Brno
Faculty of Regional Development and International Studies

International Trade between European Union and Arab States of the Persian Gulf

Bachelor thesis

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Brno, 2016

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In Brno, 20. 5. 2016

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Barbora Kuchyňková

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Abstract

Kuchyňková, B. *International Trade between European Union and Arab States of the Persian Gulf* Bachelor Thesis, Brno, 2016.

This thesis is evaluating the mutual trade relation of European Union and Gulf Cooperation Council and it provides examination of the business environment in the Gulf region based on statistical and informatory data. In the thesis are examined the political and economic aspects of mutual cooperation that stands behind unsuccessful implementation of free trade agreement between them. In this thesis there are explained patterns of trade interaction between European Union and Gulf Cooperation Council and also the impacts of trade conditions in the Persian Gulf on European businesses. Based on examination of current state of relation and global circumstances are given perspectives for future cooperation and recommendations for deepening their business relations in the future.

Key words: Gulf Cooperation Council, European Union, international trade, free trade agreement, business environment

Abstrakt

Kuchyňková, B. *International Trade between European Union and Arab States of the Persian Gulf* Bakalářská práce, Brno, 2016.

Tato práce zhodnocuje vzájemné obchodní vztahy Evropské Unie a Rady pro spolupráci arabských států v Zálivu a provádí prozkoumání obchodního prostředí v Perském zálivu na základě statistických a informativních dat. V této práci jsou zkoumány politické a ekonomické aspekty vzájemné spolupráce, které stojí za neúspěšnou implementací vzájemné dohody o volném obchodu. Tato práce vysvětluje znaky obchodních interakcí mezi Evropskou Unií a Radou pro spolupráci arabských států v Zálivu a také dopady podmínek obchodu v Perském zálivu na Evropské podniky. Na základě zkoumání současného stavu vzájemných vztahů a globálních okolností jsou navrženy perspektivy pro možnou další spolupráci a doporučení pro prohloubení jejich obchodních vztahů do budoucna.

Klíčová slova: Rada pro spolupráci arabských států v Zálivu, Evropská Unie, mezinárodní obchod, dohoda o volném obchodu, obchodní prostředí

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1. Introduction

International trade is nowadays essential part of the global economy and it creates the most important part of outer economic relations of states. International trade is the most dynamic element of economic development that belongs to decisive factors influencing global economy. Due to globalization is the international trade becoming important on larger scale, because states are often part of bigger economic units that promote common approaches toward each other resulting in wider cooperation and deepening of common business. The importance of economic and political cooperation of European Union and Gulf Cooperation Council is becoming more and more important question at the background of current events proving instability of the region of the Middle East. International trade of these gatherings of states has always been one of the reasons for maintaining common relations, while in the past more diplomatic interactions reentered the relation. European Union and Gulf Cooperation Council are mutual trading partners and close neighboring entities but they are quite distant on the political and diplomatic basis. The Gulf Cooperation Council has become a global actor due to its influence in the region; therefore its outer economic relations grew on significance. Since the creation of mutual relation there has been an initiative to create the free trade agreement, but it is still not fulfilled, even though they have the similar goals to global governance of trade and finance. The development of mutual relation that alternated between stagnation and vision of high cooperation is interesting example of international trade relations in the global economy. The current state of increasing cooperation and trade becoming the strongest field of common interest are the reasons for the need of examination of common relations. The main reasons for the evaluation of international trade between European Union and Gulf Cooperation Council are the possibility of renewed free trade negotiations and the importance of GCC countries in maintaining peace in the Middle East region.

2. Aim and Methodology

The aim of the thesis is to evaluate international trade relations and interactions of European Union and Arab states of the Persian Gulf that are specified in this thesis as the Gulf Cooperation Council. The thesis is aiming to characterize the specifics of trade in the Persian Gulf region, to examine the impact of the international trade on their economies and businesses and to give recommendations for mutual economic cooperation of these regions and recommendations for European businesses that could increase their trade interactions and deepen their economic and political relations towards linking common interests.

The thesis consists of theoretical background of examined topic and practical evaluation of a given topic. The first part of the thesis contain basic theoretical aspect of international trade that consists of functions and structure of international trade, the main indicators of international trade, the factors that are influencing cross border trade, the importance of trading internationally in the economy, main economic approaches that influence international trade, characteristics of foreign trade policy, types of contractual trade relations and impact of economic integration on trade interactions. As an introduction to the examined topic of the thesis is used literature retrieval that interprets the main opinions, conclusions and recommendations of scientific researches and papers which has already been published on this topic.

In the analytical part is examined the international trade of the Gulf Cooperation Council and European Union. Firstly are characterized and economic aspects of Gulf Cooperation Council influencing their trade patterns, continuing by the characteristics and aspects of mutual trade relations with European Union, their diplomatic interactions, agreements and projects supporting mutual political and economic cooperation. Further are examined the trade conditions and requirements for doing business in Gulf Cooperation Council countries and perspectives of future cooperation with European Union.

The relevant literature is used to examine the topic, for the theoretical background are used books and textbooks about the theory of international trade, while for the practical part is used wide range of relevant sources, including scientific papers, research papers and studies about the topic, the books and electronic publications, electronic business journals, articles at official websites of European Union and Gulf Cooperation Council, business websites for entrepreneurs, websites of companies acting in the Gulf region and official websites of projects and actions with the government approvals. For the statistical data are used official data from the World Trade Organization, The World Bank, UNCTADStat, GCC Statistical Center and European Statistics concerning trade. The statistical data cover time period from 2000 to 2014 or 2004-2014, while some long term indicators use oldest data from year 1995. The most recent data used in this thesis come from 2014-2016 according to the availability of the data. In the thesis are used methods of description of the given topic for understanding the situation of EU-GCC relation, the analysis and comparison of relevant data for a specific time period. These methods are used for evaluation the patterns, changes, development and current state of the issue.

3. Key Terms and Basic Theoretical Aspects of International Trade

International trade is based on several economic approaches, which sets the main directions of evaluation of the foreign economic activity. The theory of international trade includes the main indicators and circumstances that must be taken into account during the analysis of trade. In this chapter will be explained main functions, terms, aspects and economic approaches of international trade.

3.1. Functions and Structure of International Trade

According to Svatoš (2009) between general functions of international trade belongs:

- Transformation function: International trade changes and transforms the structure of domestic production
- Growth function: Creation of specialization profile of economies contributes to economic growth

International trade deals with these issues according to Kubišta et al (1999):

- *Efficiency of allocation of production* resources on the global scale and its effective use. Most important is productivity of labor force and production resources.
- *Redistribution of wealth* in a mean of analysis of who gain or lose in the international trade.
- *Growth of domestic economy* with connection to the growth of economic potentials on both demand and supply in other countries.
- *Functioning of market* that expresses deviation of real market from the rules of perfect competition.

- *Institutional structure of countries* and its effect of international trade, which consists of different economic policy (exchange rate, taxes, tariffs and quotas, rate of economic integration with other states and level of purchasing power).

We can distinguish *territorial* and *commodity* structure of the international trade. The territorial structure shows the amount of countries participated in the international trade and their contribution to world´s exports and imports, the commodity structure shows the structure of commodities in import and export of the country. (Svatoš, 2009)

3.2. The Main Indicators of International Trade

The main indicators of international trade are expressing the volume of trade and other additional information that are used for evaluation of the economic activity of the country. Below are listed the main indicators, classification and indexes that will be evaluated in this thesis.

Export and Import

Exported products are goods which are produced domestically and then sold abroad, while imported products are goods that are produced abroad and then sold on domestic market (Mankiw, 2015)

Net exports (Trade balance)

Relation between import and export thus "*Spending on domestically produced goods by foreigners (exports) minus spending on foreign goods by domestic residents (imports)"* (Mankiw, 2015, p.821) Active balance of trade means trade surplus, while passive balance means trade deficit.

Gross domestic product (GDP)

"*The market value of all final goods and services produced within a country in a given period of time."(*Mankiw, 2015, p.819)

Balance of payments

"Balance of payments is a statistical record of economic transactions between the country´s entities and entities from the rest of the world for a certain period, usually one year" (Palát et al.,2013, p.31)

Trade complementarity index

Trade complementarity index measures the similarities in country´s export profile with import profile of another country, therefore shows how can these two states of group of states trade. The index values are from 0 to 1, while 0 shows no similarities in trade pattern, 1 shows perfect match in their trade pattern. If two countries have high index, they can gain from mutual trade by preferential trade agreement.

$$TCij = 100 - \sum|Mik - Xij|/2$$

In the equation is Xij the share of good i in the export abroad of a country j and Mik is the share of good i in the whole imports of the country k. This index does not include transportation and transaction costs that can influence mutual trade. (Unctadstat, 2016)

SITC (Standard International Trade Classification)

SITC is a classification of products by the United Nations which is used for the trade statistics and international comparisons of the commodities or manufactured goods. It includes main 8 categories that are divided to the main groups of commodities in each section. (Eurostat, 2013)

3.3. Factors Influencing International Trade

In this subchapter are listed the main factors that are influencing foreign economic activity of the country. These factors are influencing country´s involvement in the international trade and volume of trade abroad.

Openness of the economy

The most important factor for the analysis of the international trade is the degree of openness of the economy, which sets the intensity of involvement of the country in the international trade. (Cihelková, 2003) The intensity of the involvement in the international trade is according to Kubišta et al. (1999) measured by two indicators:

- The share of exports in country´s GDP
- The volume of exports per capita in convertible currency

The involvement in the international trade has a connection to the characteristics of the economy of certain country, which can be expressed by using correlation relations. The negative correlation is connected to the size of the economy and the degree of openness of the economy, therefore bigger economies have smaller involvement in the international trade, and in smaller economies there is a higher degree of openness of the economy. Positive correlation is a relation between the development of the country and its involvement in the international trade, therefore the more developed the country is the higher involvement in the international trade exists. (Kubišta, 2009)

Pull factors

Pull factors of international trade are factors that drive states to participate in the international trade. The main action taken to enter world market is trade liberalization. The main advantage of trade liberalization is allocation of resources therefore the efficiency of production creates economic growth (Jovanovich, 2006). Between pull factors we can categorize foreign direct investments (FDI) that are important part of international trade due to the free movement of capital. With FDI are connected two types of vertical integration, off shoring and outsourcing. Outsourcing means that a firm uses for some parts of their production outside company which can be another domestic company of foreign company, while off shoring is the allocation of some of the business process to another country. (Yager, Hite and Nilson, 2004)

In the past years the decline of transportation costs enabled reduction of production costs, effective use of human capital and the technological progress proved to be important factor in the market integration and also the reason for decline of these transportation costs (Krugman, Obstfeld, 2009). The next factors influencing each trade operation are transaction costs, which are costs that must be made to realize the trade. Also international organizations such as WTO, IMF or World Bank have a big influence in the international trade, they set the conditions for trading and though these organizations are most of trade agreements signed between the states. (Jovanovich, 2006)

Push factors

Between push factors that attract states to participate in the international trade belong the flexibility of the job market and mobility of human capital which are unquestionable factors for trade evolvement, and also the technological progress, accumulation of education and good infrastructure. All of these factors ensure effectiveness of the economy by the growth of international trade. Between push factors can be categorized external economies which are usually connected with historical evolvement of the country, due to external economies are created region with accumulation of production of specific commodities, firms set a production in a region where other companies already created a good conditions for the production of a specific commodity. (Krugman and Obstfeld, 2009)

The exchange rate and the monetary union is another determinant of the international trade, which is a risk that is eliminated by the custom union, and therefore the countries within the customs union trade more with each other. Another push factors are the trade policies, which sets the conditions for the international trade and the position of the state in the world market, then the political situation of the country and the size of the population and the consumer´s preferences. (Kalínská, 2010)

3.4. Role of International Trade in the Economy

Trade relations of states result in more stable and closer relations which therefore diminish threat of conflicts and supports peace cooperation. International trade represents exchange of reproducible goods of one country with other states that overcomes barriers of domestic economic limitations (Kubišta et al., 1999). International trade does not only comprise trading of goods and services between two countries but it also contains invisible interactions such as international exchange of risky assets or financial capital. In action, there is no separating line between monetary and trade issues, they are connected and usually interdependent. (Krugman, Obstfeld, 2003)

Equilibrium without Trade

When a state does not participate in the world market, the prices are adjusted to the balance of supply and demand.

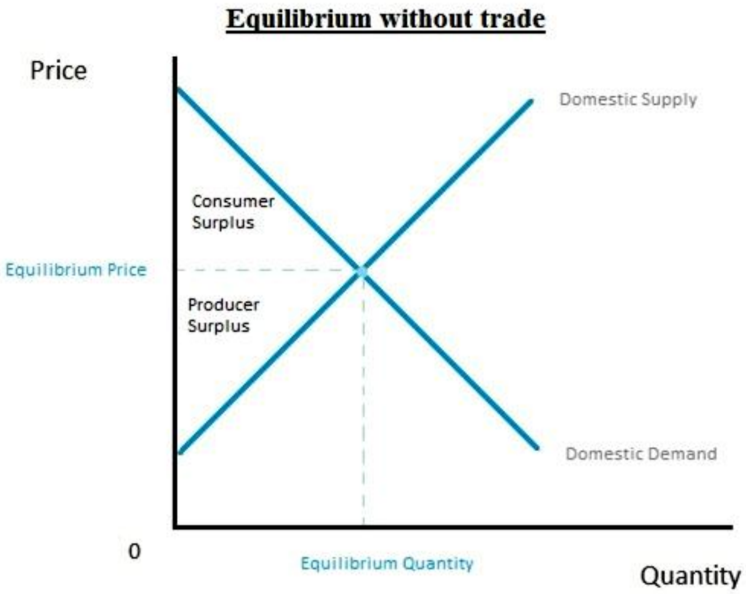

Fig.1: Equilibrium without trade

Source: Mankiw (2015)

Fig.1 presents the situation when the sum of producer and consumer surplus is equal to the benefit that sellers and buyers gain from the participation in the market. (Mankiw, 2015)

Gains and Losses of Importing and Exporting countries

The essential reason for trading is very straightforward. Trade have to be beneficial for both parties, each party have to obtain specific gains from the trade. International trade is beneficial for the country if there is a possibility to buy a commodity from abroad at lower price than the production cost of a commodity produced within the country (Gandolfo, 2013). It influences balance of payments and it determines exchange rate which is no longer controlled by governments (Krugman, Obstfeld, 2003). Left side of Fig.2 shows the situation when domestic equilibrium price that was before the trade is below the world price. When international trade is allowed the domestic price is forced to rise to the level of world price. Domestic quantity demanded becomes lower than domestic quantity supplied so the difference is exported to another countries. (Mankiw, 2015)

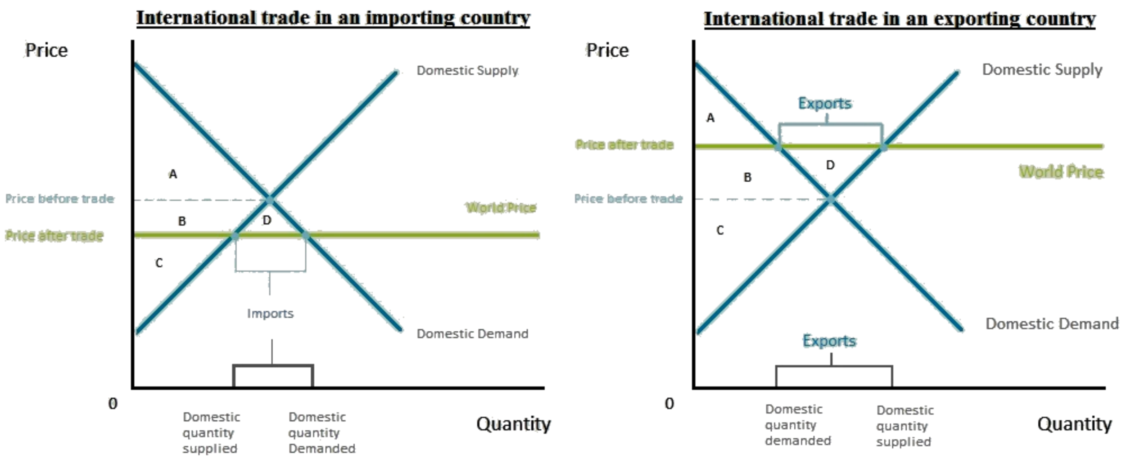

Fig.2: International trade in an importing and exporting country

Source: Mankiw (2015)

When the domestic price before the trade is higher than the world price and the international trade is allowed the domestic price must adjust to the world price level. As the right side of Fig.2 shows, the domestic quantity demanded is higher than domestic quantity supplied therefore the difference is supplied by import. This represent the situation when the domestic quantity demanded is higher than domestic quantity supplied therefore the difference is supplied by import. (Mankiw, 2015)

3.5. Main Economic Approaches

Theoretical economical theories are part of international trade theory and explain the main approaches towards international trade. This chapter contains the main economic approaches that influence the international trade trends and involvement of trade in the economies.

Mercantilism

Mercantilist opinions were influential between 16^{th} and 18^{th} century until they were disproved by classical political economy. The main thesis of mercantilism was to increase export and minimize import and the international trade was not considered as a zero sum game, therefore one country win and other loses in the trade. The wealth of nation was given by the amount of precious metals, therefore extraction of these metals, or active balance of payments were the only ways to increase wealth of nation. The Mercantilists did not consider that involvement of the country in the international trade would lead to increase of wealth in all participated parties. (Kalínská, 2010)

Theory of Absolute and Comparative Advantage

The absolute advantage formulated by Adam Smith is based on the ability of one country to create one type of goods more effectively, therefore with biggest output on one unit of input. If a country has lower per unit production costs than other countries, it has absolute advantage and exports these goods to other countries and imports other commodities from countries that have absolute advantage in their production. This theory is based on assumption that considers only one production factor, which means that the value of a good is measured by amount of labor involved in the production, and other factors, such as land or capital are not considered. The model of comparative advantage was created by David Ricardo and its basic concept is differences in technological degree of production resulting in diverse productivity in mutually trading countries (Kubišta et al, 1999). This theory is trying to erase the main flaw of absolute advantage theory, which is a consideration of a situation when country does not have any absolute advantage. (Kalínská, 2010)

Table 1: Comparative Advantage

	Unit cost of production in terms of labour	
Commodity	Country A	Country B
X	3	6
Y	8	2

Source: own illustration

When each entity specialize on production of good for which is has comparative advantage, the gains from specialization and trade causes overall rise in production in the economy. (Mankiw, 2015)

Factor proportions theories

Heckscher-Ohlin Model

This model is following the theory of comparative advantage and extends it by another production factor - capital. It is based on assumptions that goods can be classified as capital-intensive and labor-intensive, level of these production factors differs in each state, it is not possible to replace labor by capital or conversely and the mobility of these factors between states is limited. According to this model are some countries focused with production of labor-intensive goods and other by capital-intensive goods. (Kalínská, 2010)

Stolper - Samuelson theorem of change in global prices

Says that the increase of world price of some commodity leads to increase of price because of the factor on which is the production more demanding than others. It shows that tariffs has anti-market character, they can influence distribution of income, employment and efficiency of management of productivity resources, which breaks the main rules by which is international labor divided and resources are allocated. The prices of commodities are diverging instead of converging, same as prices of production factors. The transaction costs are increasing, the motivation for effectiveness and innovation of production is lost and the structure of consummation is ineffective. Tariffs have negative political impacts as it puts both sides of the trade interactions in disagreement, both citizens and governments. The result of this theory is the contribution of international trade to balancing prices of factors between trading countries. (Kubišta et al., 1999)

The New Trade Theory - Porter´s Competitive Advantage

Porter argues that countries create competitive advantage by capital formation and investments but do not have natural resources of factor endowments naturally. Countries create institutions that invest in infrastructure, innovation of technologies, education. (Harrison, 2000)

Porter defines 4 determinants of competitive advantage and competitiveness of a country:

- *Factors endowments:* if a country has natural resources it provides them initial competitive advantage, but the management of these resources is what actually provides competitive advantage.
- *Demand conditions*: existence of consumers, the nature of domestic demand and its structure, intensity of domestic competition
- *Related and supporting industries*
- *Firm strategy, structure and rivalry*: porter states that good management, creativity and stand against competition makes firm successful.

These determinants enable firms and countries to compete on the world market. (Harrison, 2000)

Alternative Theories

Theory of Immiserizing Growth by Jagdish Bhagwati

Theory that says that developing countries react conversely on the change of world prices than they would react based on classical economic theories. Instead of decrease of production they increase it in order to achieve the same level of income. This causes pressure on the world economy and developing countries are pressed to produce more all the time. (Kalínská 2010)

Theory of peripheral Economy by Raul Prebisch

Also deals with problem of developing countries. Raul Prebisch divided world on core and peripheries, and by his model the prices of commodities that peripheries, consisting of developing countries export rises lower than prices of industrial products that these countries import, and this causes worsening of exchange ratio. (Kalínská, 2010)

Increasing returns to Scale

Shows how big multinational companies of developed economies that produce on large scale and reach economies of scale are benefited. For the increase of inter-field trade are responsible increasing economies of scale and differentiation of goods in developed economies as a result of oligopolistic competition and its pressure on intentional differentiation of goods and coercion of consumer to have lowest elasticity of demand. (Kalínská, 2010)

3.6. Foreign Trade Policy

The foreign trade policy is direct or indirect government intervention that sets economic effects of the international transaction. Foreign trade policy combines the economics and the law; it has to deal with consumer preferences, social policy and also with institutions dealing with trade questions. The foreign trade policy creates multilateral and bilateral agreements to set the terms of trade and there are also agreements concerning the classification of goods for tariff purposes. (Kerr, Gaisford, 2007)

The foreign trade policy reflects the current political and economical situation, and it has to take into account the situation on the world market. It dealt with discrimination, which is using of trade policies toward specific states and it is an uneven approach towards same commodity from various countries and contrary the preferences enables better trade conditions. These double sided approaches are limited by the WTO. (Svatoš, 2009)

We can distinguish two main approaches towards international trade. *Active approaches* to international trade that support more freer trade with minimal government involvement are connected with liberalism, they support integration unions and they simplify import conditions, on the contrary *passive approaches* are protecting domestic production and are connected to protectionism. Nowadays active approaches are involved to support economic growth and majority of states are highly dependent on the international trade. (Svatoš, 2009)

Protectionism vs. Liberalism

Foreign trade policy is a regulation of outer economic relations; we can distinguish two main principles of foreign trade policy, *protectionism* and *liberalism* (Svatoš, 2009). The supporters of free trade are classical theorists that explains that international trade is beneficial both on domestic and global scale. On the other hand supporters of protectionist theories believe that international trade in not always beneficial for the domestic economy therefore they propose imposition of various instruments to control or even eliminate cross border trade activities (Kubišta et al, 1999). While open markets have contributed to economic growth globally and there are significant welfare gains from free trade still several trade obstacles are remaining. We can distinguish tariff and non- tariff barriers of international trade, both have significant effects for the trading countries.

Tariffs

The effect of the tariff is to increase the price of imported goods. We can distinguish specific tariffs that add specific charge for one unit of imported goods or ad valorem tariffs that add a percentage of value of the imported goods. They are part of government income and their purpose is to protect domestic production. Tariff reduction is beneficial for consumers same as the whole country, because the resources of the country can be used in a more efficient way. (Love, Lattimore, 2009)

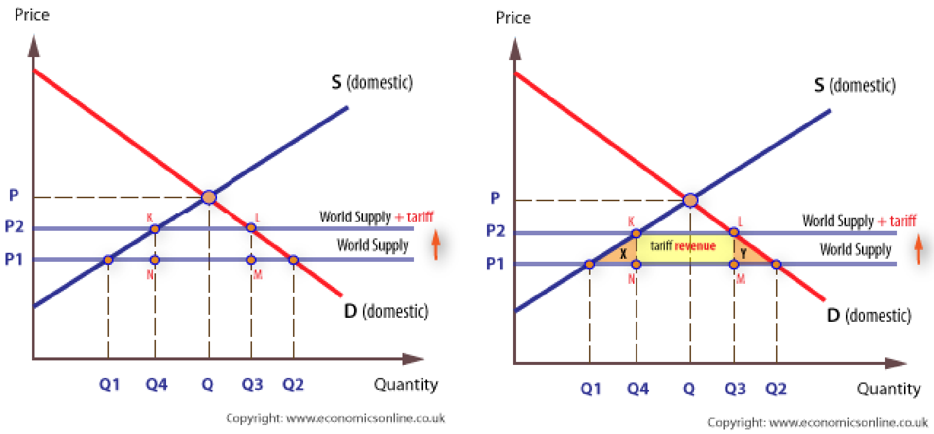

Fig. 3: Effect of a tariff

Source: Economics Online (2015)

From the Fig.3 we can see that the imposition of tariff causes rise of prices, which means that domestic producers are not threaten by cheap imports from abroad, and the jobs will be protected in the domestic country. (Economics Online, 2015)

Non-tariff barriers

Several non tariff trade barriers such as quotas or various import restrictions exists. They have for objective to protect the consumers, they should not be used to keep high prices of imported goods or penalize importing countries. Import restrictions are usually implied for non-economic reasons, to meet regulatory objectives and therefore protect environment and health of consumers. (Love, Lattimore, 2009)

Quotas are forms of government interventions that controls amount of imported goods and at the same time rises price of the good (Kalínská, 2010). One of the types of quota is import quota which controls the amount of goods imported to the country. (Krugman, Obstfeld, 2003)

From the graphical illustration (Fig.4) we can see that imposed quota caused a relative shortage and increased the price to P2, and total output declined to Q4.

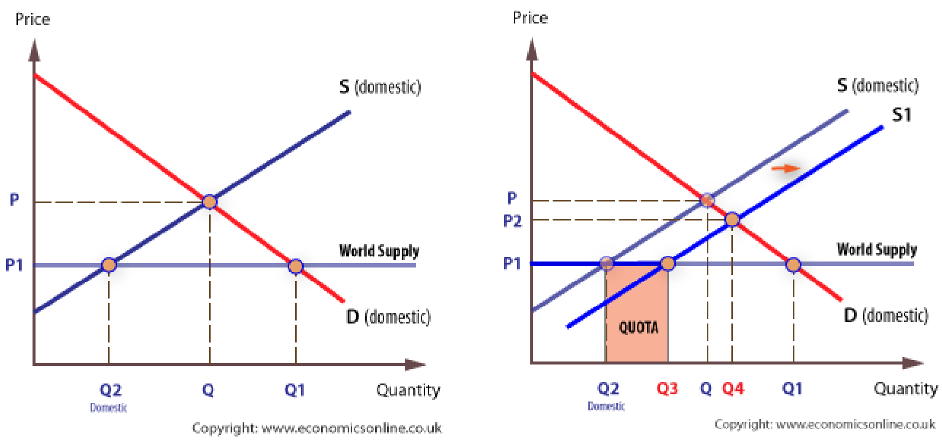

Fig. 4: Effect of a quota

Source: Economics Online (2015)

This price rise enables the domestic firms to increase their output. The main reason of less frequent use of quotas over tariffs is that there is no tax revenue for the country. (Economics online, 2015)

Procedural barriers comprise various legal impediments in trade, such as certification procedures, product approvals or fulfillment of product standards that are considered as legal trade barriers. (Love, Lattimore, 2009)

Customs fees increase the price of trading goods and therefore have negative effect for the trade. Usually they are applied ad valorem. (Love, Lattimore, 2009)

Export restraints and duties are implemented when importing country requests a specific limitation of import therefore exporting countries have a limitation of export to specific country (Krugman, Obstfeld, 2003). Other option is when the exporting country sets a tax on their exports, in order to keep domestic price low and gain more revenue from the export. (Love, Lattimore, 2009)

Technical barriers concerning the aspects of the commodity traded such as size, shape, its performance or functions. Commodities also have to fulfill the technical requirements and standards. (Love, Lattimore, 2009)

General Agreement on Tariffs and Trade

For the management of trade barriers has been created General Agreement on Tariffs and Trade (GATT), it has been established for the purpose of creating international forum for establishing trade conditions and resolving disputes concerning trade negotiations. It is a part of WTO and the establishment is dated in 1947. It promoted several conditions for international trading and in series of “trade rounds” promoted tariff reduction frameworks. In the negotiations were discussed also various technical barriers to trade, anti-dumping, subsidies or government interventions. Similarly to WTO, its main goal is to promote fair international trade that is secure and without discrimination. Nevertheless, GATT is only an agreement which makes the negotiations prolonged because of the lack of institutional foundation, contrary to WTO which has legal power. (Gandolfo, 2013)

Founders of GATT introduced the most favored nation (MFN) treatment that ensured that if a country decides to open their market to another country is must subsequently open their market to all GATT members. This treatment was supporting multilateral trade liberalization and generally the basic principles of GATT, which are non-discrimination, reciprocity, transparency, enforcement and impartial settlement of disputes. (Jovanovich, 2006)

3.7. Contractual Trade Relations

Contractual agreements are one of the tools of foreign trade policies. They are applied in bilateral and multilateral economic relations. Between those belong trade agreements, payment term agreements, agreements about strategic cooperation, agreements about protection of investments and economic cooperation. (Svatoš, 2009)

Contractual trade agreements within WTO

The agreements within WTO are multilateral agreements that are obligatory for all member states. Between these agreements belongs above mentioned GATT (General Agreement on Tariffs and Trade) then GATS (General Agreement on Trade in Services) and TRIPS (Trade- Related Aspects on Intellectual Property Rights.) The multinational agreements are combined with general agreement for access on market, and other non-obligatory agreements. (Svatoš, 2009)

Preferential trade agreements

Between preferential trade agreements belong the Free trade Agreement (FTA) that set common trade policies within the member states, it is a form of economic integration, the member states have better conditions for trading than the non-member states. Another preferential trade agreement is Custom Union (CU) it has the same conditions as free trade area but adds a common tariff for non-member countries (Kalínská, 2010). All forms of economic integration will be discussed in following chapter.

3.8. Trade and Economic Integration

The global economy consists of many states that have their own sovereignty therefore they set their own trade and economic policies. The most challenging goal of globalized economy is to find relative balance between monetary policies of diverse countries and global trading, with addition of new international macroeconomic policies. (Krugman, Obstfeld, 2003)

International trade is essential part of economic integration that is currently very attractive strategy toward economic development. Economic integration affects most of the national and international economic decisions, the creation of trade agreements set the whole direction of the world trading system. Most of the countries entered in some integration trade agreement in order to secure access to wider market and achieve better welfare. (Jovanovich, 2006)

Globalization is changing the structure of global economy. For the purpose of elimination of the economic trade barriers are single autonomous states creating formalized co-operations which are aiming for economic integration, therefore creating free trade areas, custom unions of further forms of integration. (Svatoš, 2009)

Kalínská (2010) has referred to economic integration as a mechanism that makes a complete change of structure of global economy, by which relatively small economic units are becoming a part of bigger ones. Depending on the degree of integration are these economic units lowering trade barriers for mutual trade with goods and services, they are enabling free movement of capital and people, dissolute internal borders and aim for introduction of common monetary policy. Above all can be political integration in a form of political union that creates common governance of economic unit.

According to Kalínská (2010) we can distinguish four types of economic integration:

1. Preferential trading area
2. Free trade area
3. Custom union
4. Common market
5. Economic and monetary union

In the preferential trading areas are participants limiting tariff and nontariff instruments of foreign policy towards each other, but there is no common policy towards other non participating states. In the free trade area are participating countries removing obstacles of mutual trade, but also keep their trade policy toward non participating countries. The FTA can relate to certain commodities (partial FTA) or can relate to all trading commodities. In the custom union is except of FTA also common policy towards non member countries which is usually possible only within countries with same interests.

Common market is very similar to custom union, but with addition of elimination of physical, technical and tax barriers. Economic and monetary union has above that common monetary policy, therefore common currency. This degree of cooperation requires high rate of coordination between participating states. Each of the phases of economic integration contain the previous one, therefore economic and monetary union is the highest degree of economic integration. (Kalínská, 2010)

States have various positive results from international economic integration, they have better access to the markets of allied countries, they are able to improve the domestic market and adapt new trade barriers according to other states due to existing trust between them, the preferential terms of trade are beneficial for the whole country in the long run and the economic integration seems to be a very good strategy toward states welfare. (Jovanovich, 2006)

While globalization is trying to erase boundaries between states, *regionalism* is creating new cooperation of states that pursue the same interests. These interactions are projects that are settled by the government by several agreement processes, where as *Regionalization* refers to integration processes that are initiated by the influence of market, private businesses and investment flows and therefore have for aim to achieve economic growth by liberalization of trade and investments. Regionalization is very often referred to as market driven integration. The main difference between regionalism and regionalization is in the degree of formal institutionalization, Regionalism is a very formal process, while regionalization is driven by local non-governmental organization or other entities. (Svatoš, 2009)

Regional integration is the counterpart of globalization which is important part of economic prosperity of states entities. States participates in economic regional integration to enhance access to foreign markets or stimulate their use of natural resources. Conversely this process can be also seen hand in hand with globalization, because due to globalization more regional cooperation is supported and later on it leads back to globalization. (Svatoš, 2009)

4. Literature Retrieval

The economic and political relationship between European Union and Persian Gulf has been explored from many points of view, especially the circumstances, mutual business interactions and diplomatic actions aiming to the possibility of concluding the FTA has been analyzed in many papers. Eissa has published an analysis of the EU-GCC potential to FTA based on actual steps and actions made (Eissa, 2014). Some of authors have reviewed the trade relations of specific GCC states with European Union, for instance Kostadinova has review the EU-Saudi Arabia relation on the background of EU-GCC relations. (Kostadinova, 2013) Still most of the publications are exploring the region to region trade of EU and GCC. Koch in his paper referred to the report from 2002 where it has been stated that *'The relationship between the EU and the GCC or its member countries has been of low intensity, and it reflects neither the geographic proximity nor the vital links in several fields existing between the two sides"*. (Koch,2013, p.6) Regardless this fact, it is clear that the trade between them have grown and there has been put new items in the negotiations over the time (Youngs and Echague, 2007). *"I believe that we should reinforce our cooperation in the fields of mutual interests: industry, energy, research and education, science and technology, information and communications technology, investment and climate actions. An exchange of information and knowledge but also of culture will be of mutual benefit for our both regions. We have so much in common and still a lot we can learn from each other!"* stated Angelika Niebler. (Eurochambers Press Release, 2014, p.1) The European outer economic and political relations towards Middle East region have been analyzed within the European Neighborhood Policy, emphasizing the aspect of regional security and energy policies in the book *Neighborhood Challenge* from 2009 (Balamir-Coskun and Demitras-Coskun, 2009). Gstohl and Lannon have published a book concerning the broader neighborhood of European Union and they presented the challenges and opportunities for the European Union towards deeper business relations with their closer neighbors comprising the Persian Gulf, and their other publication has revised the European Neighborhood Policy and also the EU-GCC distant relation with its divergences and convergences (Gstohl and Lannon, 2015; Gstohl and Lannon, 2016). Ramady has published a book about the new opportunities for the GCC countries and he has stated that "*Reviewing the energy supply and demand patterns in the EU emphasizes the real reliance of the EU on imported oil and gas. This reality brings the issue of security of energy supply to the forefront of EU´s energy strategy."* (Ramady, 2012, p.55) Ulrichsen has examined the changing position of Gulf Cooperation Council in the global political economy and its importance as global actor (Ulrichsen, 2015). As mentioned in one paper, Sreekumar points out that *"If signed, the free trade agreement would be the first of its kind between two political and economic blocks"* (Sreekumar, 2009) Ayadi and Gadi explored the possibility of FTA based on trade and investment patterns in the last two decades (Ayadi and Gadi, 2013). Harders and Legrenzi has published a book about the regionalism in the Middle East region and its connections to the world market (Harders and Legrenzi, 2012). Townsend has examined in his report the importance of trade for the GCC countries in the future due to economic diversification and strengthening business ties with the world trading partners (Townsend, 2015). Colombo has reviewed the prospect of FTA agreement and stated that *"EU has geopolitical motivation for signing an FTA, whereas the GCC countries see the FTA as a supportive factor in their economic diversification strategies."* (Colombo, 2014, p.84)

On the other side, there are circumstances that are blocking the mutual trade relations. One of them is that *"the EU position is that we can offer some compromise and give some possibilities, but we cannot allow a completely free hand, otherwise it is not a real FTA"* explains Mr. Wojahn (The Economist Intelligence Unit Limited, 2014) Salim, Kabir and Mawali have studied the GCC trade and analyzed whether there is more trade potential in the region resulting from the non-oil sector (Salim, Kabir and Mawali, 2011). Authors from the International Business & Economic research Journal believe that despite the failures in the past, EU and GCC are still foreseen as trading partners in the future and the FTA is essential for increased cooperation in all aspects, but there is from both sides a need for fresh look at concluding an FTA. *"The EU-GCC relationship has the potential to go far blond the economic benefits, as the EU and the Arabian countries share many common interests with regard to regional security, as well as political, economic, environmental and cultural issues. Conclusion and implementation of EU-GCC free trade agreement is a necessary step to move forward and cooperate on non-economic issues." (*Hasmhi, Al-Eatani and Shaikh, 2014, p.113)

The business environment of GCC countries influencing the international trade has been examined by Gani and Al-Abri, they have investigated the effect of business environment indicators on the FDI flows to the GCC region (Gani and Al-Abri, 2013). Toledo has applied the adjustments in a factors proportion model of FTA and he examined the price changes across industries in the GCC countries (Toledo, 2011). Milmo in 2015 considered the benefits of FTA for the European and Arabian businesses, showing forecasted real added value to the economies and the obstacle of the persistence of Saudi Arabia to control export duties on oil. He adds that *"The allowing of export duties should not be part of an FTA in the 21st century. Even the WTO goes along with that."* (Milmo, 2015, p.10), and he also fear that the trade ties will be kept on the individual basis. He adds that now is favorable time for concluding the FTA for boosting mutual trade and that *"there is a strong chance that the two regions will be able to resolve existing disputes in order to move their trading relations to a level which will provide the basis for a long-lasting economic partnership."* (Milmo, 2015, p.12)

Dr.Al-Sadoun from GPCA presented the benefits of FTA for the petrochemical industry: *"If the agreement is to be reached, it will bring about positive results for the GCC petrochemicals industry: the EU consumers will have access to competitively priced products from the Arabian Gulf, while the GCC producers will earn higher returns."* (Arnolds, 2015) Peters has examined the European Union´s reaction to the Arab Spring events and change in international politics between European Union and Persian Gulf (Peters, 2012). The current unstable political situation could affect the mutual relation, in 2013 was the relation characterized as it "*does not present the kind of acute urgency"* (Khader, 2013, p.1), while two years after Frederica Mogherini argued that "*Cooperation is the key to our security. Cooperation inside the European Union, of course, and cooperation inside our continent. But as threats become global and borderless, cooperation on a global scale is also crucial. Security in Europe calls for a more cooperative and effective global order."* (EEAS, 2015) that has underlined the need of strengthening common relation to maintain peace.

5. Characteristics of Gulf Cooperation Council

The Gulf Cooperation Council (or the Cooperation Council for the Arab States of the Gulf) has been formed in 1981 as a unique cooperation union and managed to create during its existence deep integration of participated states. GCC countries lie in the centre of the Middle East region and count for 2,5 million square kilometers. They control huge part of OPEC countries oil reserves (Low and Salazar, 2011). GCC consists of six states: Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and United Arab Emirates, other states in the Gulf region are not included in the union. The main reason for creating integrated union in the region was to improve and strengthen common relations in several areas of cooperation, to have same approach toward financial and economic affairs, to encourage private sectors and to achieve common approach towards social affairs, health, education and technological progress in many fields resulting in economic integration. (Bojarczyk, 2013)

Fig. 5: Gulf Cooperation Council

Source: Ventures Onsite (2016)

The stable position of GCC states in the international market is ensured by their oil and gas exports. The significant position of GCC in the world economy has been created after the energy crisis in the 1970s, and during its existence the Gulf region had to struggle with unstable political environment and regional security conflicts which have been a driving force for GCC states to create union with common approach toward security challenges and economic prosperity. (Bojarczyk, 2013)

6. Economic Aspects of GCC Countries Influencing Their Trade Patterns

GCC has become a very significant regional bloc that influences the global economy due to its strategic location, reserves of oil and gas and its impact on the financial markets. GCC countries share similar features, such as high reliance on oil and gas, dependence on foreign labor caused by relatively youth population, very high youth unemployment and minority of nationals in the overall population. (Ramady, 2012)

On the Table 2 below are presented results from the evaluation of the Index of Economic Freedom that shows the economic environment of GCC countries. The highest score has Bahrain, while all GCC countries belong to the moderately or mostly economic free countries. (2016 Index of Economic Freedom, 2016)

Table 2 Index of Economic Freedom 2016

Country Name	2016 Score	Property Rights	Freedom from Corruption	Fiscal Freedom	Gov't Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
Bahrain	74,3	60,0	49,0	99,9	75,4	71,9	79,1	74,6	82,6	70	80
Kuwait	62,7	45,0	44,0	97,7	57,7	63,4	62,7	74,2	77,2	55	50
Oman	67,1	55,0	45,0	98,5	36,8	70,1	72,5	77,9	85	70	60
Qatar	70,7	65,0	69,0	99,7	70,4	71,4	70,7	74,1	81,8	45	60
Saudi Arabia	62,1	40,0	49,0	99,7	56,8	69,9	68,5	69,2	77,8	40	50
UAE	72,6	55,0	70,0	95,0	76,1	79,6	80,7	81,3	82,8	45	60

Source: www.heritage.org

As the region is interconnected with the international economic and financial system, the region was affected by the 2008 financial crisis resulting in fall of GDP in following years. GCC region is in progress of economic diversification and is enforcing the private and public sector to create economic growth and prepare for the future, where the private sector could be the main source of economic growth and could provide sustainable employment. The Arab spring has shifted the GCC´s government attention to the fight with the political, social and economic uncertainty, which resulted in increased attention on the private and public sector growth and international relations and actions (Ramady, 2012). GCC has promoted custom union in January 2003 that consisted of unified custom system and procedures, free movement of goods, unified external custom tariff and a common strategy towards foreign trading partners and foreign trade policies (Low and Salazar, 2011). On the Table 3 are represented statistical data about GCC countries for the year 2015.

Table 3 Gulf Cooperation Council characteristics 2015

Country	Population (Millions)	GDP (Billions, PPP)	GDP Growth Rate (%)	5 Year GDP Growth Rate (%)	GDP per Capita (PPP)	Unemployment (%)	Inflation (%)	FDI Inflow (Millions)	Public Debt (% of GDP)
Bahrain	1,2	$61,9	4,7	4,0	$51 714	4,1	2,5	957,4	43,8
Kuwait	4,0	$284,0	1,3	3,3	$71 020	3,0	2,9	485,8	7,1
Oman	4,1	$162,4	2,9	4,5	$39 681	7,2	1,0	1 179,9	5,1
Qatar	2,2	$320,5	6,1	9,7	$143 427	0,3	3,0	1 040,4	31,5
Saudi Arabia	30,8	$1 605,7	3,6	5,3	$52 183	5,6	2,7	8 012,0	1,6
UAE	9,3	$599,8	3,6	4,0	$64 479	3,6	2,3	10 065,8	12,1

Source: www.heritage.org

Table shows that in 2015 highest GDP growth rate was in Qatar, same as for the 5 year period and there is the lowest unemployment rate. Oman has the highest unemployment rate and Bahrain has the highest public debt. Most of the FDI went to UAE and Saudi Arabia. Real Gross Domestic Product of GCC counted in 2014 for 1,6 trillion USD, which proves its importance in global market, but due to decline of oil prices is the GDP growth experiencing slower growth, the real GDP growth is expected to be only 3,2% in 2016 (IMF estimation), while only 1% of oil GDP growth (KAMCO Investment Research, 2015). Nevertheless, the GCC countries are still the key drivers of economic growth in the region, lead by Saudi Arabia as is presented in the following Fig. 6 that shows the distribution of GDP between the GCC countries.

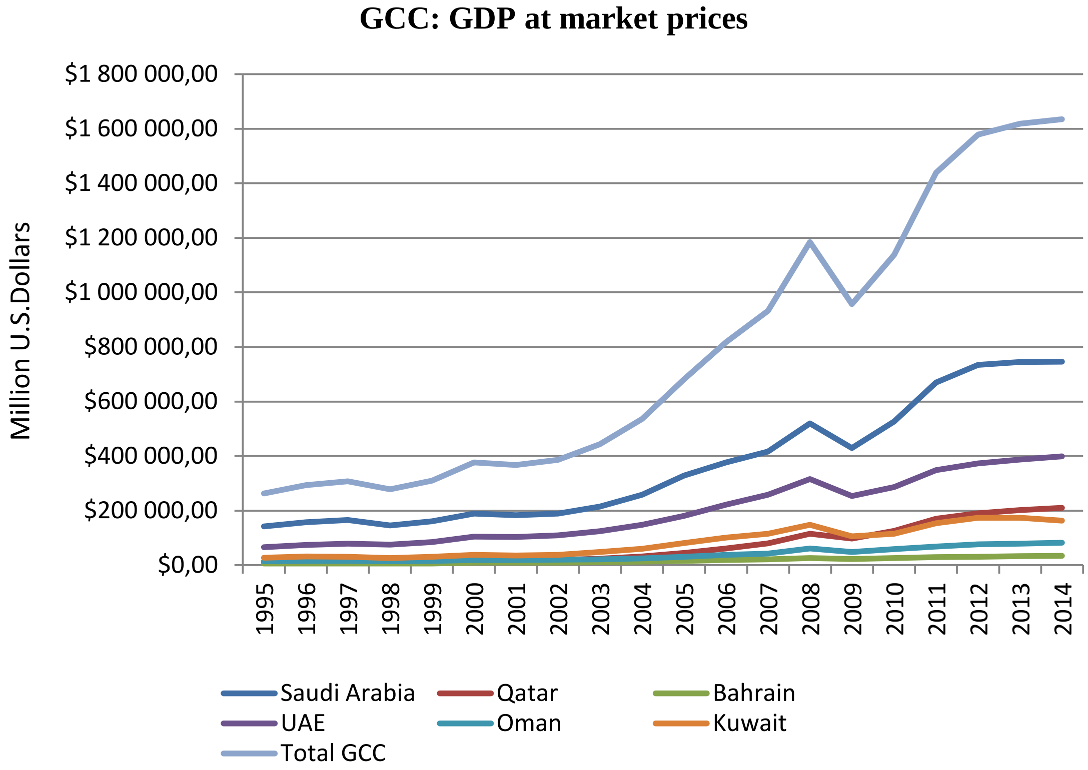

Fig. 6: GCC: GDP at market prices

Source: The World Bank (2016)

GCC belongs between the major exporters of mineral fuels and its export creates most of their income. The main exporters of the GCC are Saudi Arabia and United Arab Emirates, their exports create the majority of GCC total exports. In the period of 2000-2013 the amount of total GCC export significantly increased. The majority of export consists of mineral fuels, in 2012 the distribution of exports was 78,5% of oil export, 13,3% of non-oil sector and 8,2% of re-export. (GCC-Stat, 2014)

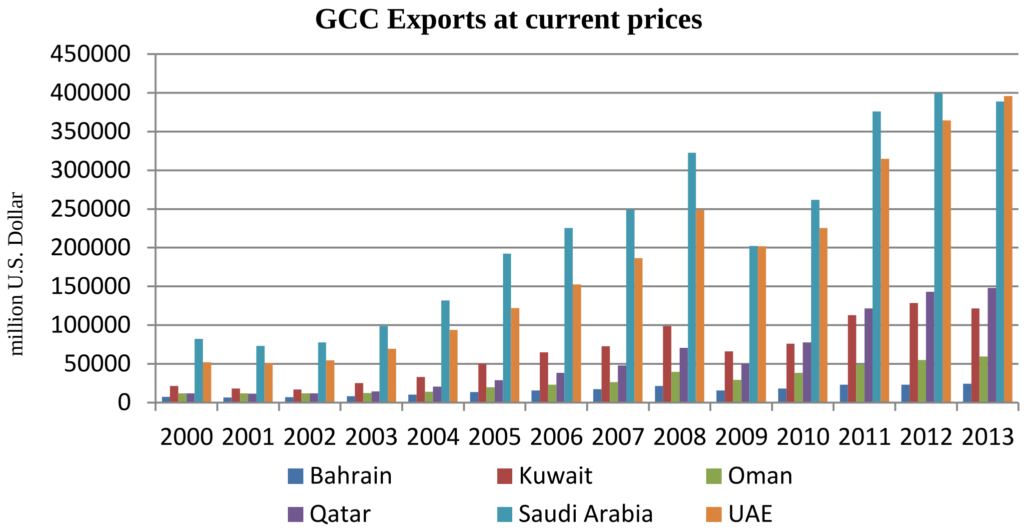

Fig. 7: GCC Exports at current prices

Source: UNCTADSTAT (2016)

Gulf region does not have enough non-oil resources therefore they are dependent on imported goods. On the Fig. 8 below is presented the increase of amount of imports which reflects the increased demand in the region for imported goods. This trend is linked with the economic development and population growth. Most imports to the GCC are (according to the Harmonized System Sections) the electrical machinery, vehicles and aircrafts, precious and base metals and chemical products. (GCC-stat, 2014)

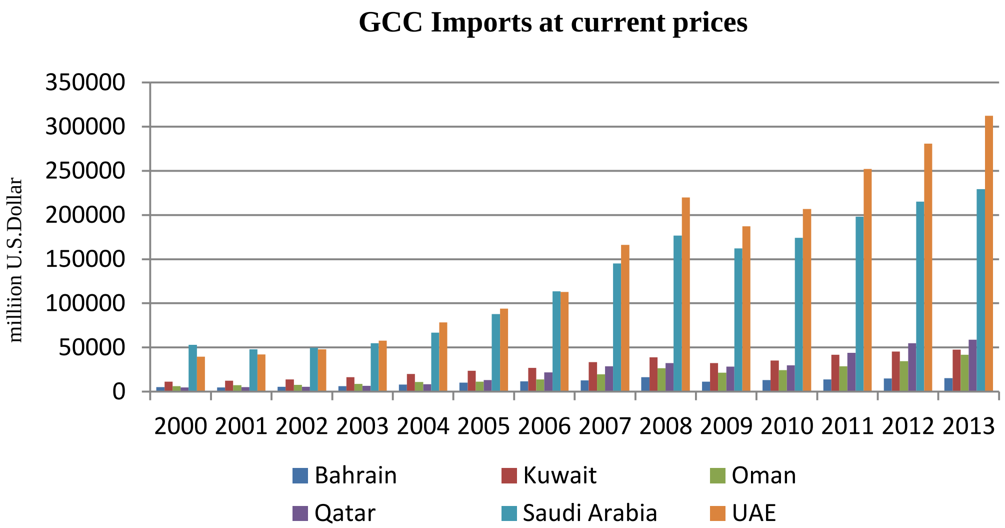

Fig. 8: GCC Imports at current prices

Source: UNCTADSTAT (2016)

The Fig. 9 presents the comparison of share of imports and exports in the GCC countries. The trend shows that the overall amount of imports and exports increased rapidly and during the 21st century the exports exceed imports and create positive trade balance.

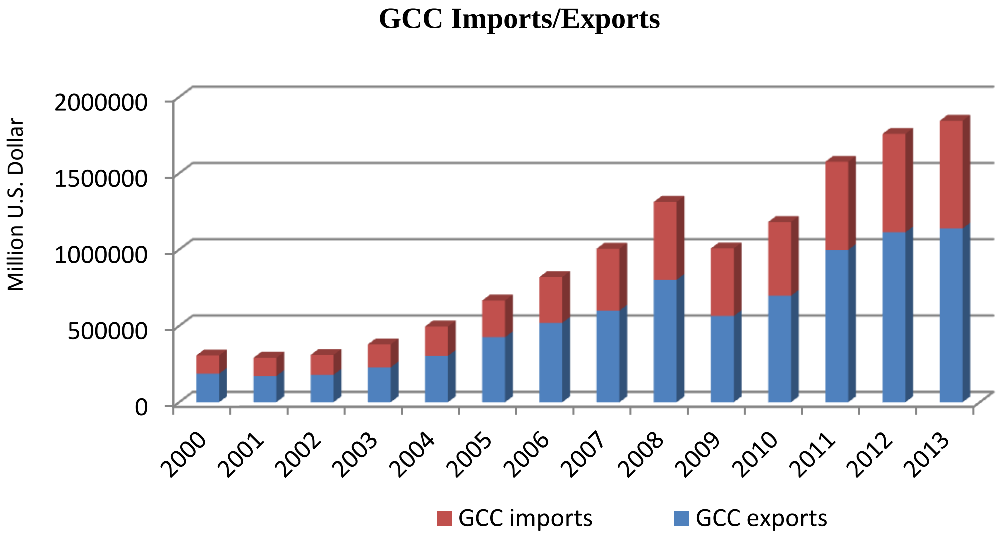

Fig. 9: GCC Imports/Exports

Source: UNCTADSTAT (2016)

Due to economic development of emerging markets and higher consumption of mineral fuel worldwide the demand for oil increases and the GCC countries are experiencing growth of export, but in the past years the demand for oil is stagnating. This forces the GCC state for economic diversification and growth of non-oil exports.

Trading partners of GCC

Trade represents the most important part of economies of GCC countries. These oil rich countries rely on export of energy resources. Foreign countries which imports oil and gas from GCC are very important trading partners. In the 1980 were most of the trading partners OECD countries, dominated by North America and Western Europe, but since the 1990s the pattern of trade shifted and the emerging Asian markets gained a position in the GCC trade and investment flows (Sabavala and al-Saffar, 2011). In 2014 exports from GCC went most to Japan, China and South Korea, the European Union was the fifth largest trading partner regarding exports.

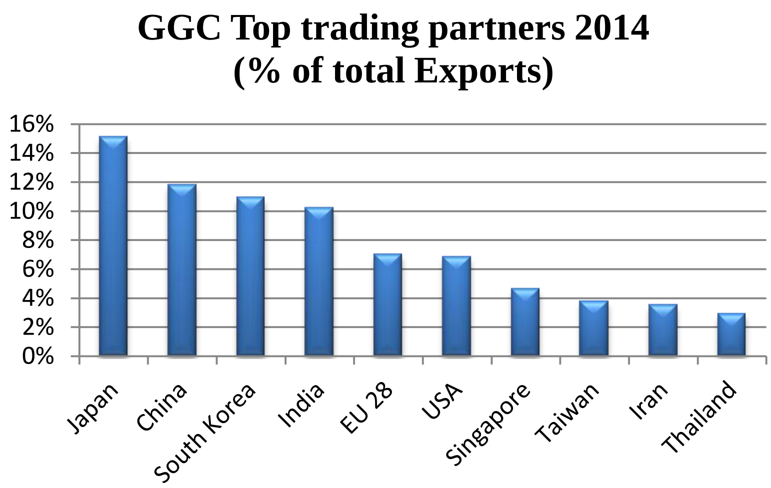

Fig. 10: GCC Top trading partners 2014 (% of total exports)

Source: Directorate General for Trade (2016)

GCC countries rely on imported goods as they have to import most of the commodities. European Union was in 2014 the biggest importer to GCC, therefore the trade with EU is very important for the GCC countries since European Union is a favorable and proximate trading partner. On the Fig. 10 and 11 we can see that the trade of European Union and GCC represents important part of overall trade in both parts, the imports to GCC from the European Union counts for ¼ of the whole imports and exports from GCC to European Union counts for 7% of the whole exports.

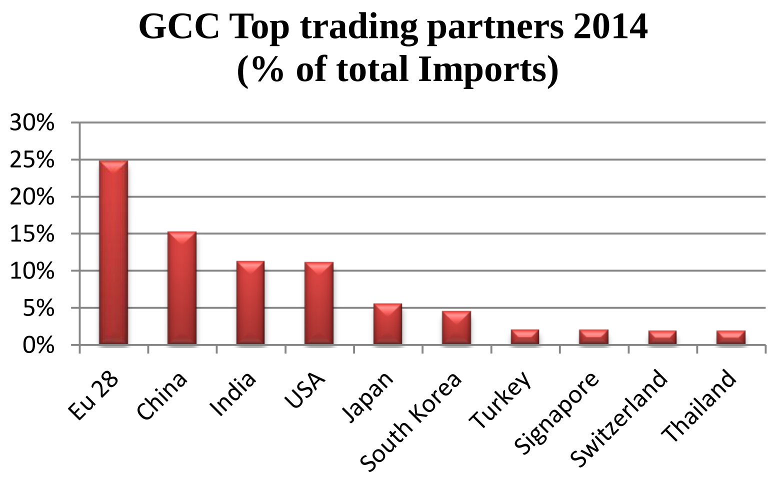

Fig. 11: GCC Top trading partners 2014 (% of total imports)

Source: Directorate General for Trade (2016)

Except of oil has the GCC potential to participate on non-oil goods and services markets by the economic diversification through wide range of investments from private investors and wealth funds that are growing on significance in the region. The emerging markets notably in Asia are important trading partners of GCC because of their position on the world market, while the European Union has a trade advantage of geographical proximity and its share in the GCC imports. (Sabavala and al-Saffar, 2011)

7. Characteristics and Aspects of GCC-EU Trade Relations

EU and GCC have a long history of trade relations which rise on importance since the borders of European Union are from its establishment expanding towards the Middle East and thus they are assumed as very proximate trading partners (Koch, 2013). In this subchapter will be examined the commodity structure of EU-GCC trade and statistics of trade between these two trading partners.

The Gulf region was before the creation of the GCC overlooked by the Europe, the only attempt to create some economic and political relation was the Euro-Arab dialogue in the 1974, while later after the oil crisis and the creation of GCC Europe started to create stronger links with the region. In 1981 more than 70% of imports in the EEC were from Arab League States and there was an attempt to conclude agreement that would enable free access to the market and oil supplies. The economic turn-down caused by the shock in oil prices in the period 1982-1985 resulted in deficits in the balance of payments and influenced the evolvement of common relation, as the imports from GCC to Europe declined. Nevertheless the Cooperation Agreement was signed in 1988 and improved the social aspects and civil society engagement, yet no progress was made on the side of free trade negotiations in the next five years. (Khader, 2013)

After the ministerial meeting in Granada in 1995 has been pointed out the importance of the common relation, since the total bilateral trade increased, and the GCC were the most important source of oil for the European Union. In the 1998 the Gulf region experienced economic slowdown due to rapid decline of oil prices. The region´s exports declined while imports remained the same and Europe maintain the position of top trading partner. From 1998 to 2001 European Union contributed to the increase of mutual trade and in 2001 the total Gulf trade consisted 43,9% of EU trade. During the 20 years of cooperation from 1981 to 2001 the amount of European imports decreased from 36,4 billion € in 1981 to 19,7 billion EUR in 2001 while European exports increased from 12,4 billion € in 1981 to 34 billion € in 2001. In the period from 2000 to 2012 the Europe´s share in GCC total trade rapidly decreased due to the GCC´s shift to new emerging markets. In spite of steady hike in oil prices in 2003-2006 European Union managed to keep commercial surplus with GCC states and remained important trading partner. Later on was created the Joint Action Programme and in 2011 the European Parliament recognized the GCC as stable regional organization that is the key actor in world politics, and draw new plans that could strengthen their relation (Khader, 2013). In the next subchapter will be examined the structure of EU-GCC trade according to the SITC classification.

EU with GCC: Trade Flows by SITC section 2011-2014

In the following Fig. 12 and Fig. 13 is presented the commodity structure of imports and exports between European Union and Gulf Cooperation Council for the year 2014.

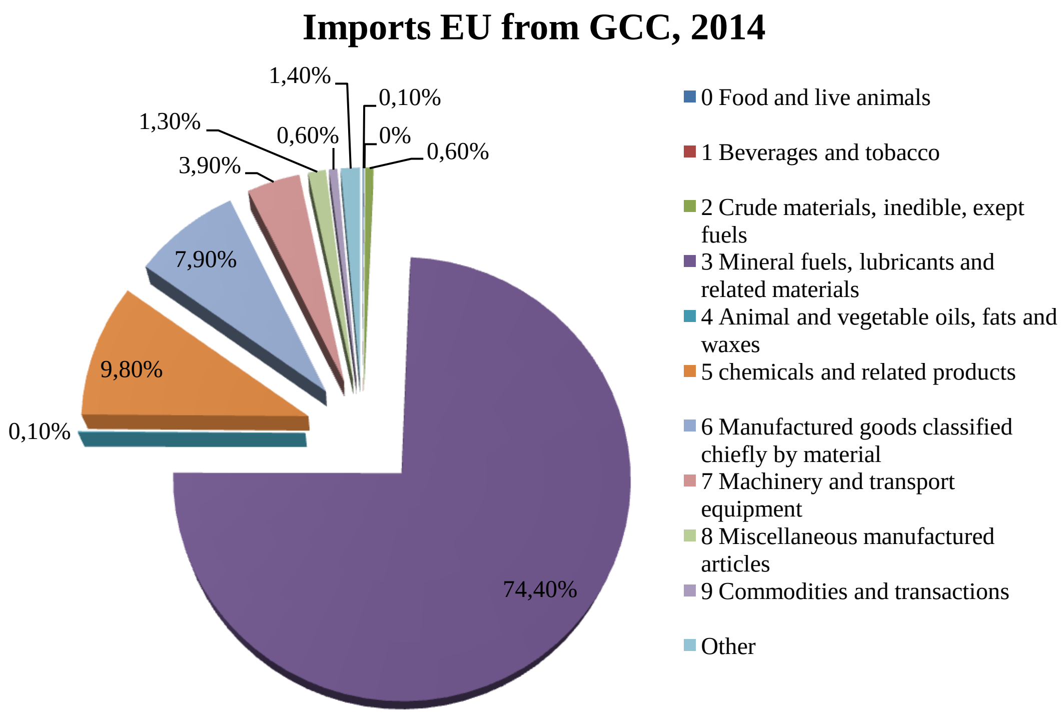

Fig. 12: Imports EU from GCC, 2014

Source: Directorate General for Trade (2016)

The biggest part of EU imports from GCC are the commodities from the third category by the SITC classification (comprising oil and gas) which are affected by the European energy and environmental policies. These commodities are crucially important for the EU´s transportation and industry sector. The EU is reliant on the import of energy resources, either from Russia, North Africa or GCC countries. After the 2011 and problems with gas supply from Russia the GCC proved to be important supplier for the EU, and the forecast is that by 2030 the energy requirement of EU should rise by 8%, therefore the GCC-EU export is expected to rise, and imports should rise too to provide equal trade opportunities for both sides (Ramady, 2012). In 2014 almost 75% of all imports of European Union counted for the category 3 that comprise oil and gas, and other important commodities imported are in category 5 and 4 counting for 9,8% and 7,9% of total imports.

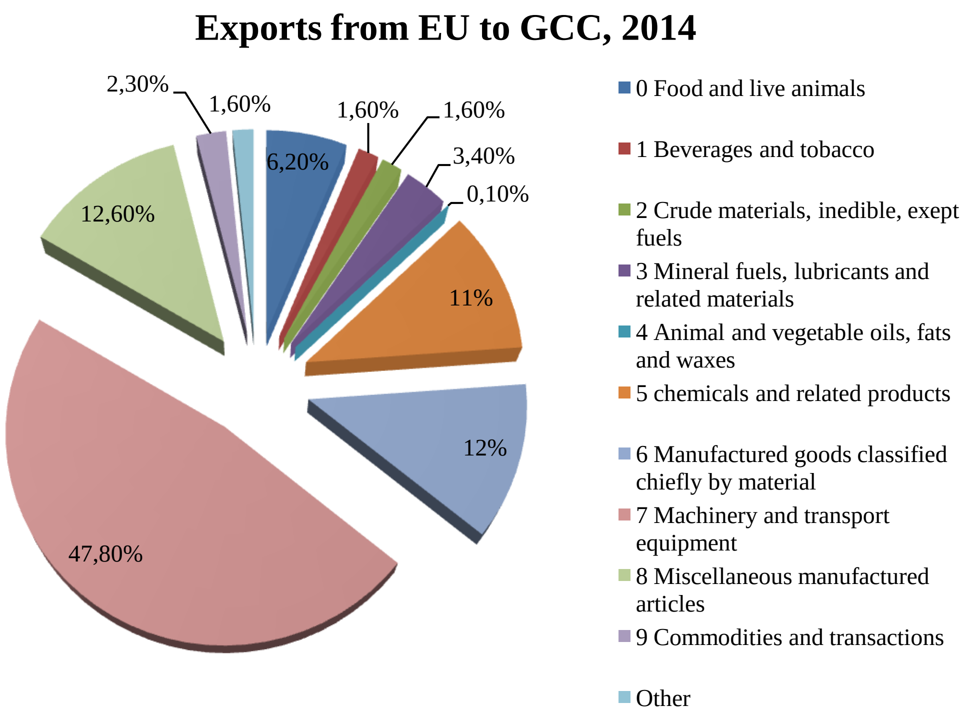

Fig. 13: Export from EU to GCC, 2014

Source: Directorate General for Trade (2016)

The exports of EU to the GCC are divided into more significant categories; the biggest is the category 7 that counts almost half of total exports, the import of machinery and transport equipment is very important for the GCC region. Next significant categories are categories 2, 5 and 6, consisting of crude materials, chemical products and manufactured goods counts each about 12% of total exports. Other categories are represented by only a small percentage of total exports. The trade flows of chemicals are experiencing the most significant trade growth between EU and GCC. (Milmo, 2015)

From the table below that shows development of EU-GCC imports and exports in the period 2011-2014 we can see that the imports of EU from the GCC were steadily increasing only in the category 8, other categories were balancing up and down. Most of the categories did not experience huge decline, with exception of the important category 3, which has been experiencing decline since 2012. The Total amount of goods imported has declined by nearly 10 billion € from 2012 to 2014 which is caused by the above mentioned decline of imports in the category 3.

Table 4: EU with GCC: Trade Flows by SITC section 2011-2014

EU with GCC: Trade flows by SITC section 2011-2014	Imports Value Mio €				Exports Value Mio €			
	2011	2012	2013	2014	2011	2012	2013	2014
Total	57435	61273	57031	51397	73048	83720	94956	96797
0 Food and live animals	115	66	76	57	4280	5074	5966	5959
1 Beverages and tobacco	12	10	12	13	1030	1338	1476	1562
2 Crude materials, inedible, exept fuels	455	390	301	312	1291	1489	1393	1582
3 Mineral fuels, lubricants and related materials	45309	48925	43277	38218	3083	2838	2958	3270
4 Animal and vegetable oils, fats and waxes	235	91	26	37	58	69	73	91
5 chemicals and related products	4727	5300	5704	5049	8551	9899	10409	10614
6 Manufactured goods classified chiefly by material	3894	3778	3959	4038	9852	10272	11258	11573
7 Machinery and transport equipment	1602	1666	2541	1982	33972	40028	42443	46221
8 Miscellaneous manufactured articles	505	594	600	664	8342	10440	11269	12195
9 Commodities and transactions	320	329	370	324	1458	899	5964	2229
Other	260	125	165	703	1131	1373	1746	1501

Data source: trade.ec.europa.eu

On the side of export from EU to GCC was experienced steady increase in the total amounts exported, almost each category has recorded increase in commodities exported, notably the categories 7 and 8. Total value of goods exported from EU increased in this period by nearly 24 billion EUR, caused partly by the increase in the category 7. Overall, in the period 2011-2014 the imports from GCC to EU were declining, while exports from EU to GCC were increasing.

Trade Complementarity Index

Trade complementarity index of the European Union and GCC shows upward trend, from the year 1996 till 2013 it has risen by 0,11. The index reflects the steady increase of mutual trade and changes in the structure of trading commodities.

Table 5: Trade Complementarity Index

Trade Complementarity Index				Trade Complementarity Index Development			
					GCC with EU 28		
GCC with selected countries				1996	0,23	2005	0,28
2013				1997	0,26	2006	0,28
India	0,55	Brazil	0,32	1998	0,26	2007	0,28
Rep. of Korea	0,47	China	0,29	1999	0,24	2008	0,3
Japan	0,43	Canada	0,28	2000	0,23	2009	0,33
Thailand	0,38	Nigeria	0,23	2001	0,25	2010	0,32
EU 28	0,34	Algeria	0,21	2002	0,27	2011	0,33
Australia	0,33	Iran	0,19	2003	0,26	2012	0,34
USA	0,32	Russia	0,15	2004	0,27	2013	0,34

Data source: knoema.com

The value of trade complementarity index is shown in comparison with some trading partners of the GCC in the table above. The trade complementarity index of GCC and European Union has an average value. The table above shows that GCC has higher complementarity index with Asian countries, and lower index is with countries that are either very distant from the GCC or do not complement with commodity trading structure. The EU does not have very high value of the trade complementarity index, even though they are important trading partners and close neighbors. The index is influenced by the huge amount of exports of oil and gas from GCC, therefore countries that import most of oil and gas from GCC have higher value of the index.

EU trade flows with GCC

Amounts of imports and exports between EU and GCC for the period 2004-2014 are presented below. Fig. 14 shows that the exports from the EU to GCC are higher than imports from GCC, exports are steadily growing with exception of world financial crisis and its value doubled from 2004 to 2014.

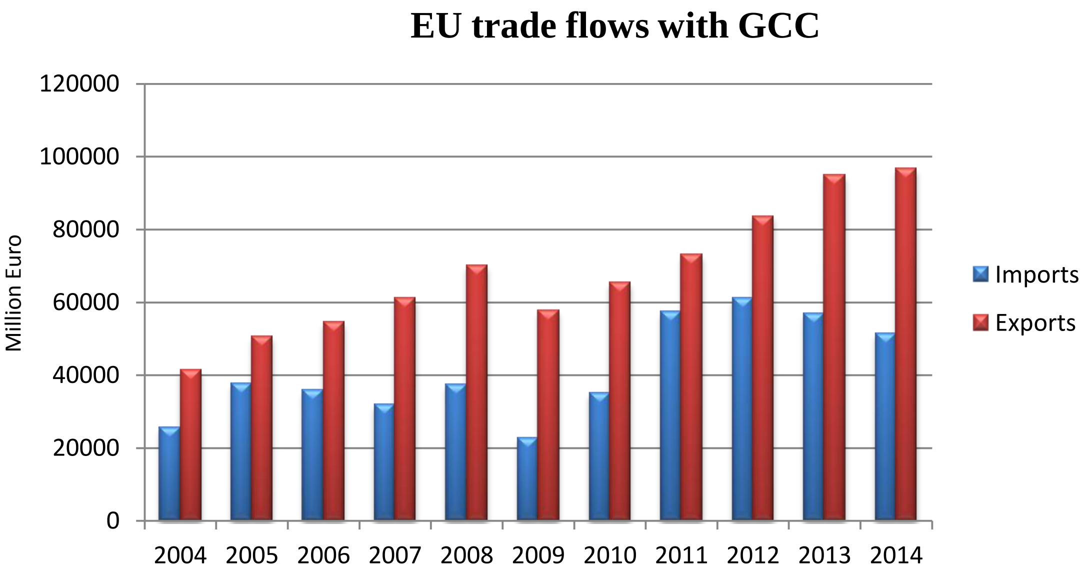

Fig. 14: EU trade flows with GCC

Source: Directorate General for Trade (2016)

The value of total exports from EU to GCC in 2014 was 96 billion € and value of total imports from GCC was 51 billion €. The imports are experiencing uneven growth, they increased since the world financial crisis but most recently they were experiencing decline.

8. Diplomatic Aspects of EU-GCC Relations

Gulf Cooperation Council has kept a relation on the global governance level with European Union for many years despite the fact that both parties have different structure, culture, size and political approaches. Economic relation is very important as GCC market is well developed and open to international trade, but the economic aspects of the global governance are limiting the relation, therefore the relation is based preferably on the political level. (Koops et al., 2013)

The start of formal negotiation with EU has been agreed on in December 1987 by the Supreme Council of the GCC states, and the mutual relation has been established by the Cooperation Agreement in 1988. The main points of this agreement ware to broaden cooperation in trade and services, energy, science and industry, to strengthen the stability of the Gulf region and to deepen political and economic relations (EEAS, 2015). In June 1990 started trade negotiations and the Framework Agreement has been signed. From this year are arranged annual Ministerial/Council meetings of foreign ministers and senior officials of the Joint Cooperation Committees. Joint Cooperation Committee assists the Ministerial Council in their actions, and 24 Ministerial Council meetings were held till 2015 (The Cooperation Council for the Arab States of the Gulf: Secretariat General, 2012). The increase of transnational frameworks of the European Union, rise of non state actors and the internal transformation of both regions increased overall interactions of both actors over the time. In the period 2003-2006 there has been attempts to improve mutual relation and bring back FTA negotiations with “Strategic Partnership with the Mediterranean and the Middle East” and “New European Security Strategy” that has called for increased cooperation, while according to Youngs and Echague (2007) till 2010 the GCC countries wanted to cooperate with European Union on individual basis and kept distant approach in the cooperation, same as European Union did not pay attention to the GCC´s importance in the security and development of the region (Khader, 2013 and Youngs and Echague, 2007). Between EU and GCC exists a mutual relation of Eurochambers and the FGCCC (Federation of Chambers of the Gulf Cooperation Council) dealing with business operations (Koops et al., 2013). Diplomatic relations were extended apart of Cooperation Agreement by the Joint Action

Programme in 2010. The 2010-2013 EU-GCC Joint Action Programme concluded 14 different field in which should have been the human level of cooperation improved. This programme was very successful in deepening relation and creation of connections that could possibly lead to progress in economic cooperation and implementation of FTA (Koch, 2013). After the events of Arab Spring the EU has come to a new approach that puts more interest in the Gulf region and creates reforms in the common relation. In 2011 were published new publications regarding these approaches, “Partnership for Democracy and Shared Prosperity” and “New Response to changing Neighborhood”. (Khader, 2013)

European Union decided to end the Generalized System of Preference (GSP) for the GCC in 2013 which made a pressure on the creation of the FTA and lead to taxation of petrochemical imports to the Union that has been a dispute topic for both parties (Kostadinova, 2013). In the next chapter are listed the main agreements, actions and programs that are important for the EU-GCC cooperation.

9. EU-GCC Agreements, Actions and Projects Supporting Mutual Trade Cooperation

The European Union has for aim to create ties with GCC by diplomatic and declaratory actions, therefore the diplomatic relations maintain by various discussions, meetings, agreements and projects. Besides the former cooperation agreement from 1988 there has been several actions taken to improve political and economical relation. The EU strategic Partnership with the Mediterranean and the Middle East (SPMME) that was launched in 2004 helped the EU to connect the Gulf region to a wider Middle East strategy, and at the 20th EU-GCC Joint Ministerial Council meeting in 2010 has been agreed upon Joint Action Programme (JAP) that had for objective to enhance cooperation in various strategic areas of mutual interest. The programme has lasted for 3 years and formally has not been renewed yet for the next years. (Gstohl and Lannon, 2015)

European Union uses various policy tools towards the GCC countries, which are included in the European Neighborhood Policy (ENP) and the above mentioned strategic Partnership with the Mediterranean and the Middle East as a continuation of the Euro- Mediterranean Partnership (EMP), which gives institutional framework about the external relations of the European Union, but still most of the relation structure is lead by the original Cooperation agreement which is below explained with the other instruments and projects that are important for the EU-GCC relation. (Koch, 2013)

Cooperation Agreement from 1988

Agreement that has been made in 1988 between former European Economic Community and the Charter of the Cooperation Council for the Arab States of the Gulf and set a cooperation that should broaden cooperation of both regions. In 26 articles were set the main objectives of mutual cooperation, including all fields of cooperation and its form. The main objectives of this agreement are to strengthen mutual relationship and broaden economic and technical cooperation in energy, agriculture, investment, science, trade and services and other fields, same as to keep peace and stability in the Gulf region. (Directorate General for Trade, 2008)

The Instrument for Cooperation with Industrialized Countries (ICT) and Partnership Instrument (PI)

ICT is a part of EU´s external relations, which was aimed to increase cooperation with major political and trading partners, it strengthened bilateral relations and it recognized EU´s strategic importance in the global economy. GCC countries are one of the targeted countries by the European Union. For the GCC-EU relationship this action enabled better trading access for European companies to the Gulf countries and also encouraged cooperation in energy, education, policy dialogues and resolving cultural disputes. It has been established in 2006 for the period of 2007-2013, and for the period 2014-2020 is followed by the Partnership Instrument (PI). Partnership Instrument is a part of Europe 2020 strategy and has for aim to widen political dialogues of European Union with emerging partners and provide policy cooperation, increase trade and investment, face global problems and promote public diplomacy. (European Commission, 2015)

EU-GCC Business and Trade Cooperation Facility Project

EU-GCC Business and Trade Cooperation Facility Project is a 3 year project from 2014 that has for objective to enhance policy dialogues of GCC´s and EU´s policy makers resulting in increase of investment opportunities and trade and to create an EU-GCC trade and business facility that would bring closer business communities in the GCC and EU. Project provides EU-GCC Business Forums that have for aim to improve understanding of policy processes and business practices and to share information about the market access and mutual trade cooperation. Forums are held on annual basis, one was in 2015 in UAE, next are projected in 2016 and 2017. Besides forums are also held Round table meeting, which are informal meetings of the business community members of both parties where are discussed important issues that would enhance EU-GCC business and trade cooperation. On quarterly basis are held policy advocacy working groups that identify business advocacy positions and provide exchange of information. This project provides various workshops and training programs for entrepreneurs concerning EU-GCC business environment. (Dansk Industri, 2014)

10. Trade Conditions and Requirements for Doing Business in the GCC Countries

The Middle East region is a very specific trading partner for the foreign exporting companies. The companies trading with the GCC have to follow several procedures and requirement to realize the trade interactions. According to the practical recommendations of companies trading in the region will be in this chapter presented specific conditions and requirements of trade with GCC countries.

For the evaluation of trade conditions must be firstly examined the local business environment. The local business environment of the GCC countries is measured according to the Ease of Doing Business Rankings that takes into account 10 indicators (starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency) by sorting the aggregate of them resulting in Ease of Doing business Rank. (The World Bank, 2016)

Table 6 Selected indicators of business environment of GCC in 2016

Business environment indicator	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Time required to build a warehouse (days)	145	216	157	57	106	43,5
Time required to enforce a contract (days)	635	566	598	570	575	495
Time required to register a property (days)	31	49	16	13	6	1,5
Time required to start a business (days)	9	31	7	8,5	19	8
Time to export: Documentary compliance (hours)	80	32	3	10	90	6
Time to export: Border Compliance (hours)	24	602	223	382	264	650
Time to import:Documentary compliance (hours)	84	148	24	72	131	37
Time to import:Border compliance (hours)	54	215	70	88	228	72
Time to prepare and pay taxes (hours)	60	98	68	41	64	12
Time to resolve insolvency (years)	2,5	4,2	4	2,8	-	3,2

Source: World Bank (2016)

The Table 6 above shows selected indicators of the business environment in the GCC countries for the year 2016, consisting of the time required to do business activities in the GCC countries. These indicators are part of 10 main indicators of Ease of Doing Business Rankings mentioned above and compare the time required to trade in each of GCC states. The overall values of the Ease of Doing Business Rankings from June 2015 are presented in the following Table 7.

Table 7 Ease of Doing Business Rankings 2015

Ease of Doing Business Rankings 2015	
Economy	Ease of Doing Business Rank
UAE	31
Bahrain	65
Qatar	68
Oman	70
Saudi Arabia	82
Kuwait	101

Source: World Bank (2016)

The higher rank means that the country has better environment for starting a business. According to the Ease of Doing Business ranking by the World Bank Group has the highest rank (lowest numerical number) UAE with low business obstacles and good economic and legal environment, while the lowest rank (highest numerical number) has Kuwait showing the opposite characteristics, mainly because the country does not support grow of the local business. These local characteristics show the patterns of business in the area and influence FDI in the GCC.

GCC countries have specific territorial trade structure. Due to economic diversification are in the GCC countries established Special Economic Zones (or free zones) that support the international business and FDI. The zones contributed to the shift of GCC economies from sole oil production and creation of a position of international trade hub. The main purposes of the free zones are to create local job opportunities and business growth in the region, same as to set better access and conditions for international trading partners and investments. Free zones enables better commercial ties of GCC and international trade partners and by better trading conditions (no import duties, tax free zones or other benefits) and attract foreign investors. Currently the largest and fastest growing free zone in GCC is Dubai Airport Free Zone Authority (DAFZA), while there are numbers of free zones in each country, and the significance of them in the international business is growing. (Gulf Business, 2014)

The Custom procedure in the GCC countries are unified by the creation of Custom Union in 2003 and the legal document comprising all custom procedures is the *Common Customs Law* of the GCC states. The GCC has implemented in 2014 the "Unified Guide of Custom procedures at GCC First points of Entry" in order to simplify the international trade and entry of new businesses in the GCC territory same as the Intra-GCC trade. This document lists the specific steps that have to be taken, documents that need to be attached and procedures that have to be made to successfully enter the GCC market. (GCC Secretariat-General, 2015)

The Non-Tariff measures in the GCC countries are according to the WTO divided into four categories, while in the GCC countries are only applied the technical barriers to trade, that consists of technical regulations and standards that define the appearance, function, health standards or mean of packaging of the products. These technical regulations must comply with the Agreement on Technical Barriers to Trade that is set by the World Trade Organization. (WTO, 2015)

Table 8 GCC Non-Tariff Measures in force as of 31/12/2015

GCC Non-Tariff Measures in force as of 31/12/2015					
	TECHNICAL		TRADE DEFENCE		
	technical barriers to trade	*Sanitary and Phytosanitary*	*Anti Dumping*	*Countervailing*	*Safeguards*
UAE	NO	YES	NO	NO	NO
Bahrain	YES	YES	NO	NO	NO
Qatar	YES	NO	NO	NO	NO
Oman	YES	YES	NO	NO	NO
Saudi Arabia	YES	YES	NO	NO	NO
Kuwait	YES	YES	NO	NO	NO
	AGRICULTURAL			OTHER	
	Special Safeguards	*Tariff-rate quotas*	*Export Subsidies*	*Quantitative Restrictions*	*State Trading Enterprises*
UAE	NO	NO	NO	NO	NO
Bahrain	NO	NO	NO	NO	NO
Qatar	NO	NO	NO	NO	NO
Oman	NO	NO	NO	NO	NO
Saudi Arabia	NO	NO	NO	NO	NO
Kuwait	NO	NO	NO	NO	NO

Source: WTO (2016)

The GCC countries do not have in force other types of non tariff barriers, because of their structure of trading goods. There is no need for protection from competition, antidumping policies or other instruments for international trade.

Doing business in the GCC: Practice in Tariffs, Custom Duties and Restrictions

The GCC tariff structure reflects the liberal trade regime supporting international and intra-regional trade. According to the UAE Embassy in London it only takes 18 days and 6 documents comprising 3 signatures to move imported goods from the ports in UAE to the warehouses. The cost of obtaining license from economic department for importers and exporters is very low; in the UAE is even the lowest in the world. According to the GCC Common Customs Law there are several import prohibition and restrictions that does not meet the religious, moral, health and safety or environmental consideration. They consist of industrial waste, ivory and rhinoceros horn, drugs, disturbing religious objects and other. In the GCC countries are also controlled some types of imports, as products for security and safety of environmentally dangerous products. Since the creation of Customs Union in 2003, the GCC keeps low custom duties and the imported goods are subject of a custom duty only at the first point of entry. (Embassy of the UAE in London, 2016)

When the goods are imported to the GCC by DHL services, there is required a set of documentation to complete the shipment, consisting of airway bill, detailed commercial invoice, packing list, certificate of origin, company registration and authorization letter. For shipment of high value may be required legalized invoice, for import of electronics the certificate of conformity, for the restricted products may be the importer required to provide Ministerial approvals. (DHL, 2012)

The custom duties in the GCC accounts for 5 percent entry duty on imports that is not followed by any other customs charges during the shipment of goods within the GCC. The customs charges are taken as obligatory costs for doing business, while there are ways to reduce these charges by management of value of the goods, for example by separating real value of the good from included costs such as packaging and transport costs. If the goods are imported to the special free zones, the payment of import duties is postponed until the goods leave the free zone, which can produce cash flow benefit for the company. The special free zones are also used as a distribution centers, as the goods exported to another territory do not pay the customs at all. KPMG member firms have to count with possibility of adjustment of customs by the authorities; they have permission to change the custom value of the goods same as good´s classification codes resulting in higher custom duty rates from 0 to 5 percent. Importers also have to risk extra charges and penalties for observance problems. The head of Tax and Corporate Services for KPMG in Qatar, Craig Richardson suggests that each company trading with the GCC should have knowledge of local laws and informal procedures to prevent these problems. He also highlights the importance of the FTA that could result in better trading conditions, as the GCC is broadening their FTA with other trading parties across the globe (KPMG, 2014). Other professional services company, PricewaterhouseCoopers (PwC) also warns their clients that the special free zones will have to face the customs audits, because even though not stated in the GCC Common Customs Law, some of the free zones require the ability of tracking destination of imported goods that causes additional custom fines and penalties. (PwC, 2015)

The experience of company exporting power system components Interpower gives several recommendations for exporting to the GCC. Besides the rules and regulations regarding the specific exported product and international regulations each GCC state has their own import requirements. In Saudi Arabia exporters have to follow the "Conformity Assessment Programme" or in Kuwait the "Kuwait Conformity Assurance Scheme" that controls the requirement for imported goods, and in general all GCC countries require the Certificate of Conformity assuring the regulatory standards of the products. The president of Interpower, Bob Wersen suggests that each company that wants to trade with the GCC countries should have contact the law and tax advisors for the Middle East and study the local regulation, customs and procedures in advance. (Interpower, 2016)

Even though the trade obstacles of Gulf Cooperation countries are not high and the trade routes and markets are relatively opened to international trade due to GCC´s position on the world market, the customs and trade barriers are influencing the amount of goods traded within the European Union and Gulf Cooperation Council. If the FTA would be implemented, the businesses in the area would profit from the removed tariff trade obstacles, especially the custom at first point of entry, while the non tariff trade barriers would not be removed absolutely because of the protective nature of the region. For the Arabian businesses would the removal of tariffs and reduction of non-tariff barriers bring lot of benefits, the GDP of Arabian economies would be increased around $65bn and the decrease in operational costs would increase returns of chemical exporters up to $2,1bn as they would be subject of no export duties. (Milmo, 2015)

11. Perspectives of Future Cooperation

The suggestions for future cooperation reflect the current situation and forecasted economic situation. For GCC countries is the economic cooperation with European Union beneficial for the development of technology and education and the diversification of their economies. The forecasted development of the trade relation is supported by the fact that GCC is the only economically stable and functioning organization in the Middle East region. The ties with EU as a reliable trading partner should enforce the economic and political cooperation (Khader, 2013). The relation of EU and GCC will be enforced by the need of defense imports due to unstable political situation in the Middle East and the European Union´s interest in keeping peace in the region. The political struggles in the Middle East should have impact on the EU-GCC relation, since they create a pressure on diplomatic resolution of the situation and the need of strong economic and political relation is growing. The mutual relation should provide a win-win situation, where European Union provides real contribution to the public sector comprising health care, housing and education and creation of job opportunities in the Gulf, since the subject of defense, energy and finance is not sufficient for maintain the relation. For the trade relation is also important the added value in the local economy of trading partner. If European Union contributes to the improvement of local job opportunities and skill education they should increase the long-term cooperation in other fields of economy including trade. (Kinninmont, 2015)

The GCC economies will have to face several threats in the future, as in 2015 the prices of oil were very low and resulted in smaller government revenues. As the prices are still sliding down the public debt in GCC countries in the next five years could uncontrollably grow. After the revenues from exports counting more than 1 trillion dollar each year in the period 2012-2014, GCC experience 23% fall in export revenues in 2015, if continued this could influence the whole world economy. In the banking sector will be experienced loss of deposit growth and government borrowing will grow. The fall in liquidity will continue to be low compared to historical standards. Next threat is the slowing China´s economic growth, as GCC and China are according to Raghu considered to be the largest trading partners by 2020, and the growing indebtedness of China resulting from slow economic growth will have impact on its trading partners, primarily GCC. (Raghu, 2016) Gulf Petrochemicals and Chemicals Association (GPCA) has suggested at the meeting of key government and business leaders from EU and GCC placed in Riyadh in 2015 that the FTA between the GCC and the top 10 trading partners (including European Union) would increase GDP, as the removal of tariff barriers accompanied by the reduction of non-tariff barriers could add up to 65 billion dollars for GCC economies. In addition EU-GCC FTA would create closer relation of these regions by effective trade reforms and will have positive results for the GCC petrochemical industry. (Arnold, 2015)

The reasons for unsuccessful FTA negotiations are the long-term disputes regarding energy sector, tariffs, petrochemical subsidies and foreign direct investments (Khader, 2013). Other problems in the mutual relation are the different approaches to democracy, since GCC countries are not recognized as “liberal market economy” but more as “modernized illiberal autocracies” and European Union has problems promoting security measures without democratic aspects (Khader, 2013). The future relation should include compromise in approaches towards democracy and they should also cooperate on the global governance level, there is a need to continuously build on global networks of multinational companies to improve movement of capital and boost further economic growth. (Koops et al., 2013)

The realization of the EU-GCC FTA would provide mutual liberalization of trade and increase imports and exports between them, but the GCC worries about the recent decline of Generalized System of Preferences that permits non-reciprocal trading preferences. The mutual trade agreement would guarantee supply of commodities that are essential for both parties, since GCC has a shortage in food commodities and EU has agricultural capacity for exports. On the other side EU is dependent of oil and gas imports and GCC have surpluses of fossil fuels. (Weick, 2014)

The current state of mutual relation can by improved and flourished by the involvement of more diplomatic actions resulting in economic cooperation. The circumstances of political instability in the Gulf region and migration crisis in Europe can result in increase diplomatic negotiations between these two parties, as after the events of Arab Spring the relation improved when the importance of relation in political security was recognized. Currently the main part of mutual relation is the economic partnership that consists of trade, industrial cooperation, investment in social development, technologies and diplomatic relations that should enforce the FTA area and accelerate the economic integration and remove trade barriers, while the current migration crisis does not support the idea of FTA between these two regions as it is feared that it would worsen the situation. Nevertheless, the European Union is aware that the former relation that was based only on the business activities is no longer sufficient for maintaining common relations. In the future the main driving forces of mutual relation will be the need of European Union to maintain peace within the union and its neighbors and the interest of peace making in the Gulf region. The increased global attention on peace keeping will improve relation of global actors and can contribute to the increased cooperation of European Union and GCC, since they are proximate neighbors and have common interest in resolving unstable situation in the Middle East. The trade relations should be in the future promising, since the mutual trade is according to the analysis of the historical evolvement of the trade relation increasing. The important part of trade is import from European Union to the GCC, since they rely on imported commodities and European Union has majority share in the GCC imports. The GCC has the interest in common economic and political relation with European Union to accelerate economic diversification and boost private and public sector. The European Union has to create a new approach towards the whole Middle East region which would change the status of the Gulf countries from distant economic partners to direct neighbors cooperating on economical and political subjects.

12. Conclusion

The aim of this thesis was to evaluate mutual trade relations of European Union and Arab States of the Persian Gulf that were for the purpose of this thesis concretely represented by the Gulf Cooperation Council. Thesis examined their trade relations and studied the impact of mutual trade for their economies and businesses and presented recommendations for future trade cooperation.

For the purpose of understanding international trade between European Union and Gulf Cooperation Council were in the first part of this thesis described theoretical aspect of international trade. Theoretical aspects of international trade encompassed the main functions and structure of international trade, the main indicators and factors of international trade, the role of international trade in the economy, gains and losses of importing and exporting countries, the main theoretical economic approaches, foreign trade policies, trade barriers, contractual trade relations and influence of economic integration on the trade. These aspects of international trade created theoretical background of the thesis. Theoretical aspects of international trade were followed by the literature retrieval. It has summarized the main findings of the published research papers and studies dealing with economic and political relations of European Union and Gulf Cooperation Council. Following analytical part firstly comprised basic information about the Gulf Cooperation Council, its economies and trade specifics according to the statistical data. For the examination of mutual trade relation were used statistical data from relevant sources that has given measurable patterns of the trade interactions. In the analytical part were defined the main patterns of the GCC trade, impact of trade on their economies and patterns of mutual trade interactions with European Union. For the evaluation of economic situation of GCC countries were used economic indicators as GDP, imports and exports at current prices and share of import and export in the trade balance. The thesis has evaluated the EU-GCC trade, presented the main findings and aspects of mutual cooperation and given recommendations for future cooperation.

The thesis has come up with following conclusions. GCC countries have a stable position on the world market due to their oil and gas resources and wealth. The region was characterized as a strategic hub between the East and West because of their important role in the security of the Middle East region. From 2000 to 2013 the amount of total GCC export increased more than six times and the majority of exports consist of mineral fuels. GCC is reliant on imports as they do not have enough non-oil resources, and the need for imported goods is steadily increasing. The European Union and Gulf Cooperation Council are proximate neighbors and their trade interactions have a significant influence on the common economic and political relationship. In year 2014 the European Union was the 1st largest trading partner of GCC regarding imports, and 5th largest trading partner regarding export. European Union´s imports from GCC consist of the majority of mineral fuels and related materials, while GCC imports from the European Union consist mostly of the heavy machinery and crude materials. The Trade Complementarity index of GCC with EU increased from 0,23 in 1996 to 0,34 in 2013. Thesis has also evaluated diplomatic aspects of mutual relationship that heavily influence the evolvement of trade. Mutual relation is conducted by the original Cooperation Agreement from 1988. The European Union also uses the European Neighborhood Policy and Strategic Partnership with the Mediterranean and the Middle East tools that gives institutional framework of their relation with GCC. The diplomatic relation is maintained and evolved by the annual Ministerial/Council meetings of foreign ministers and senior officials of the Joint Cooperation Committees. Business operations are negotiated between the Eurochambers and the Federation of Chambers of the Gulf Cooperation Council. Till 2010 the European Union did not pay attention to the importance of GCC in the security of the Gulf region and GCC cooperated with EU on individual basis, but later the diplomatic relations were extended by the Joint Action Programme in 2010 that was very successful in deepening relation in various aspects. After the examination of both economic and diplomatic aspects the thesis emphasized the importance of cooperation on political basis, as the projects and actions that have been initiated by both parties (for instance the EU-GCC Business and Trade Cooperation Facility Project or Joint Action Programme) had positive impact on development and increase of mutual trade relations in the past. The thesis also dealt with the impact of mutual trade on Arabian and European economies and businesses. The thesis presented impact of trade barriers on companies trading with GCC countries according to experiences of companies trading in the Gulf. GCC countries belong to the mostly or moderately economic free countries, but they maintain obstacles to trade comprising of technical barriers to trade and custom duty at the first point of entry and there are also several import prohibitions and restrictions by the GCC Common Customs Law. Custom duties counts for 5 percent entry duty on imports, the special free zones in the GCC enables postponing the payment of custom duties until the goods leave the zone. Special free zones in the GCC are very important trading centers in the Gulf region. Trading in the Gulf is very specific therefore European businesses should be informed by their law and tax advisors for the Middle East about the trade conditions to avoid penalties or delaying of trade interactions. Trade routes and markets in the GCC are opened to international trade, but still the implementation of FTA with European Union would cause decrease of operational costs, increase of GDP of Arabian economies and also simplify business interactions for the European businesses. FTA would have positive impact on both European and Arabian businesses; it would decrease the costs of trade while the different cultural environment would still in some aspects limit the mutual trade. The key finding of the thesis is the fact that the mutual trade relations as a part of economic and political cooperation belong to the most important part of the relation, while during the current events is not sufficient as a main driving force of mutual relationship. The economic diversification of the GCC countries has positive impact on their outer economic relations, as they create stronger business ties with their important trading partners. The GCC countries are improving their relations with their main trading partners by implementation of free trade agreements while with European Union, their largest importing partner, they did not reach the negations towards successful implementation of the free trade agreement. The factors influencing mutual trade are the political differences of both parties, the European Union emphasizes on the compliance with legal procedures and GCC countries are afraid of the restrictions and limits from the European side. These factors have impeded the signing of the FTA that would boost the mutual trade interactions by the removal of trade barriers.

The thesis had come up with a conclusion that even when the FTA is not signed, the mutual trade can be characterized as very significant part of mutual interactions. Mutual trade would by the removal of trade barriers boost, but most importantly it would decrease the political barriers between them. The improvement of economic and political aspects of mutual cooperation will be very important for the stability and peace-keeping on the global scale. The mutual trade relations will be affected by the political struggle in the Middle East region that creates pressure on the diplomatic solutions for maintaining peace and therefore will enforce the EU-GCC political negotiations. The mutual trade has to provide beneficial outcomes for both sides in order to deepen business relations, both actors should agree on acceptable conditions of new trade agreement that could be applied and bring benefit to the mutual economic and diplomatic interactions. The European Union has to create new approach towards the Middle East region that would approximate the regions towards political and economic partnership cooperating on business subjects.

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List of Abbreviations

DAFZA	Dubai Airport Free Zone Authority
EEC	European Economic Cooperation
ENP	European Neighborhood Policy
EMP	Euro-Mediterranean Partnership
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GATS	General Agreements of Trade in Services
GCC	Gulf Cooperation Council
FGCCC	Federation of Chambers of the Gulf Cooperation Council
GPCA	Gulf Petrochemicals and Chemical Association
GSP	Generalized System of Preferences
ICT	the Instrument for Cooperation with Industrialized Countries
IMF	International Monetary Fund
JAP	Joint Action Programme
MFN	Most Favored Nation
OPEC	Organisation of the Petroleum Exporting Countries
OECD	Organisation for Economic Cooperation and Development
PI	Partnership Instrument
SITC	Standard International Trade Classification
SPMME	Partnership with the Mediterranean and the Middle East
TRIPS	Trade-related Aspects on Intellectual Property Rights
WTO	World Trade Organisation