



Gulf Research Center
Knowledge for All



The GCC, the EU and the Merits of Inter-Regionalism

Silvia Colombo

November 2014

GRC GULF PAPERS

© Gulf Research Center 2014

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the Gulf Research Center.

The opinions expressed in this publication are those of the author alone and do not state or reflect the opinions or position of the Gulf Research Center.

The GCC, the EU and the Merits of Inter-Regionalism

Silvia Colombo

Relations between the Gulf Cooperation Council (GCC) and the European Union (EU) are at a crossroads. Following the unilateral suspension of the negotiations for the creation of a Free Trade Area (FTA) between the two blocs in 2008 and the failure to conclude a new Joint Action Programme (JAP) in 2013 and to hold the 24th GCC-EU Joint Council and Ministerial Meeting in 2014, multilateral cooperation between Europe and the Gulf appears to have hit a roadblock. Obstacles and shortcomings abound on both sides, while the regional and international contexts, characterized by the economic crisis that badly hit some European countries and the Arab uprisings and intra-state conflicts raging in many parts of North Africa and the Middle East, have not provided the conditions conducive to a reset and strategic rethink of their relations thus far.

Against this backdrop, this paper aims at providing an outlook on the future of EU-GCC relations by framing the constraints and opportunities for closer cooperation within the debate about regionalism. Starting from the assumption that both the EU and the GCC are more or less successful examples of regional cooperation and integration, the paper argues that opportunities to strengthen GCC cooperation and integration at the regional level lie in the pursuit of an effective and strategic dialogue and cooperation between the two blocs. In particular, the paper offers both theoretical and empirical examples of the phenomenon of inter-regionalism, namely the possibility to draw on, copy, and link up with other regional experiences as well as to coordinate common strategies and policies among regional blocs. In this regard,

two areas will be briefly investigated: fiscal and monetary governance, and foreign and security policy.

EU-GCC Relations at a Crossroads

The existing literature on EU-GCC cooperation tends to establish a link between the rather unsuccessful track record of multilateral relations between the two blocs to date and the insufficient degree of integration of the Arab Gulf grouping.¹ Kick-started in the late 1980s, with the signing of the Cooperation Agreement, relations between the EU and the GCC have arguably remained limited to the lowest common denominator of yearly summits at the level of the Joint Council and Ministerial Meetings, producing vague and often empty political statements on issues such as international stability and terrorism on which both parties tend to share the same views. In spite of, and most likely due to, the excessively ambiguous work plan outlined in the Cooperation Agreement – including economy and trade, agriculture and fisheries, industry, energy, science and technology, investments and environment protection – relations have only scratched the surface in most of these policy areas. For example, economic and trade cooperation which, in the eyes of those involved in the lengthy negotiation process for the EU-GCC Free Trade Area (FTA) between the late 1980s and 2008, should have opened the way to enhanced relations in other fields as well, did not take off as it was envisaged. In economic terms, from a European perspective, the Gulf countries are minor trading partners. Between 2000 and 2011, their share of total EU exports amounted to approximately 3 percent and their share of total imports averaged 2 percent. Also, reflecting the diversification of the EU's hydrocarbon supplies, the GCC countries' share of total hydrocarbon imports averaged 8 percent in the same period.² On the GCC side, competition to imported European products, chiefly manufactured goods and transport equipment, from the BRICS countries, and chiefly China, is growing. This has led to a narrowing of the GCC region's trade balance with the EU, which in 2012 amounted to €22 billion in favor of Europe up from €35 billion in 2009.³ In recent years, trade between the GCC countries and China has soared, driven by Beijing's need for hydrocarbon resources and an increase in its exports' added value.

1. Abdullah Baabood and Geoffrey Edwards, "Reinforcing Ambivalence: The Interaction of Gulf States and the European Union," in *European Foreign Affairs Review* 12, no. 4 (Winter 2007): 537-554.
2. Rym Ayadi and Salim Gadi, "EU-GCC Trade and Investment Relations: What Prospect of an FTA between the Two Regions?" *Sharaka Research Paper*, No. 5, <http://www.sharaka.eu/?p=1379> (accessed August 20, 2014).
3. European Commission, *European Union, Trade in Goods with GCC*, November 7, 2013, <http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc-113482.pdf> (accessed August 20, 2014).

With the failure of the aforementioned negotiations for the FTA, which can be attributed to a number of inconsistencies and divergences among the goals of European and Gulf stakeholders as well as to political sensitivities, EU-GCC relations started to experience a downward trend, despite the continuation of formal, regular contacts, whose potential was however not fully exploited. Against this backdrop, it was between 2013 and 2014, when the two parties failed to reach an agreement on the renewal of the 2010-2013 Joint Action Plan (JAP) first and then to hold the 24th GCC-EU Joint Council and Ministerial Meeting, that it became clear to all that EU-GCC relations had reached a very low point. And this is where they remain today. Despite unwarranted hopes and expectations to the contrary, the changing regional and international contexts within which EU-GCC relations experienced this downward trend did not contribute to triggering a movement toward bringing their engagement back on track onto a potentially more solid basis. We are referring here to the global financial and economic crisis that hit with particular vigor some European economies, on the one hand, and the outbreak of the Arab uprisings and the ensuing uncertain transition processes and intra-state conflicts that have turned the North African and Middle Eastern regions into a hot-spot of instability and fanatic violence, on the other. Arguing that these regional and international circumstances could have lent momentum to a newly reinvigorated EU-GCC cooperation, particularly in the Southern Mediterranean region, proved to be overly optimistic and did not take into account the extent to which the capacity of both the EU and the GCC to act as a bloc has been further constrained by these multiple political and economic crises.

This capacity already appeared to be seriously impaired by the shortcomings in the integration process of the two blocs taken separately, which – the prevailing argument goes – contributed to hindering the prospects for EU-GCC multilateral cooperation. While some analyses are ready to point to the EU's incomplete political integration, with the resulting mismatch between the inter-governmental and the supra-national levels and the prevalence of bilateral relations over the multilateral framework also in the case of EU-GCC relations,⁴ most assessments tend to put the blame on the GCC's shoulders.⁵ Indeed, the six GCC countries are today only loosely integrated despite some attempts to create a regional bloc. Inter-state rivalries, the lack of effective institutions, and insufficient political will among the member states have meant that regional integration in the Gulf still lags behind.

4. Richard Youngs, "Impasse in Euro-Gulf Relations," Al Jisr Policy Briefs, April 2009, <http://www.aljisr.ae/?q=node/33> (accessed August 22, 2014).

5. Baabood and Edwards, "Reinforcing Ambivalence."

Of Regions and Regionalism

This somber assessment of EU-GCC cooperation notwithstanding, the EU and the GCC remain two examples of more or less successful regionalism. There is a need to go back to the roots of the issue and to frame it through the lens of regionalism and its relevance for the Gulf. Indeed, the vast literature on regions provides some useful insights about the future of EU-GCC relations from an alternative perspective. While the predominant wisdom tends to see GCC integration as a necessary precondition for sound and developed EU-GCC relations, studying the literature on the regions makes it possible to tentatively argue in favor of looking at the issue from another perspective. More explicitly, we want to test the hypothesis according to which better intra-GCC integration can flow from region-to-region exchanges, particularly with the EU. In other words, EU-GCC cooperation would not result from deeper intra-GCC (and intra-EU) integration but rather act as a potential driving force to it.

The existing literature on regions and their role in international politics identifies a number of qualities of voluntary, as opposed to coercive, regionalism: aside from promoting economic, political, and security cooperation and community, it can consolidate state-building and spur democratization, check heavy-handed behavior by strong states, generate and lock in norms and values, increase transparency, and make states more accountable. All these merits of regionalism can be summarized in its order-inducing properties and its contribution to tackling regional problems, via regional solutions, and to fostering regional governance. Being situated between the global and the state levels, regions can sometimes be the most appropriate level of action geographically, ideationally, and functionally. The literature, which is heavily biased in terms of analyzing and explaining regions, their rationale and prospects by looking at the European experience only, tends to offer definitions that go beyond geography and beyond states to incorporate also non-state actors. In this regard, regions can be better defined as units based on “groups, states or territories, whose members share some identifiable traits.”⁶ This is the basic requirement for some form of shared identity, commonality, interaction, and hence the possibility of cooperation to take place. In terms of institutionalization, regionalization is the process through which a concentration of activity – of trade, peoples, ideas, and even problems and conflicts – manifests itself at the regional level. This interaction can give rise to the formation of regions and, in turn, to the emergence of regional actors, networks, and organizations.

6. Louise Fawcett, “Regionalism from an Historical Perspective,” in *Global Politics of Regionalism*, eds. Mary Farrell, Björn Hetne and LuK Van Hangenhove (London: Pluto Press, 2005), 24.

If regionalization is first and foremost a process, regionalism is a policy or a project whereby state and non-state actors cooperate and coordinate within a given region based on a set of shared goals, norms, rules, and procedures. Moving from this general understanding of regionalism, it is possible to differentiate between “soft regionalism,” aimed at promoting a sense of regional awareness or community, and “hard regionalism,” entailing the consolidation of regional groups formalized by inter-state arrangements and organizations.⁷ Even a cursory look at the few literature resources available on the limited experiments with regionalism in the Arab world reveals that the European and Gulf experiences have tended to follow alternative paths.⁸ While the EU’s soft regionalism has flown from hard regionalism, institutional development, and deepening integration, in the Arabian Gulf region, a veritable form of hard regionalism still has to develop, originating from a mild sense of regional awareness.

The experiences of the EU and the GCC also contrast from the point of view of the factors, and the explanatory paradigms, that account for the emergence of regionalism. On the one hand, liberal theories of interdependence, neo-functionalism, and institutionalism have particular value in examining patterns in regions like Europe where economic integration and institutionalization are well established. On the other hand, classic realism retains crucial explanatory value when applied to the regional initiatives of state actors that are mainly “constrained by the exigencies of state security and power, and the resultant balancing and bandwagoning behaviour.”⁹ Against this backdrop, it is not a coincidence that arguments about the need to preserve state security against potential external aggressions and the menace represented by Iran’s attempts to gain regional supremacy have featured high on the list of driving factors pushing the GCC countries to pursue successive steps of regional integration.

While GCC regionalism remains a work in progress and its development is sometimes constrained by principles like sovereignty and non-interference, it is argued here that one of the merits of this theoretical paradigm as well as one of the new frontiers to be explored lie in the possibility of cooperation across regions leading to an interlocking network of regional governance structures. The ultimate goal of inter-regional cooperation, which is assessed in a number of works, is to allow different regions to craft and coordinate common strategies and policies. Apart from this long-term goal, inter-regional cooperation may serve another goal, chiefly to

7. Ibid., 24-25.

8. Matteo Legrenzi, *The GCC and the International Relations of the Gulf: Diplomacy, Security and Economic Coordination in a Changing Middle East* (London and New York: I.B. Tauris, 2011).

9. Fawcett, “Regionalism from an Historical Perspective,” 33.

allow regions at different stages of development to exchange, draw on, copy and link up with other experiences. In the context of this paper, it means testing the hypothesis according to which EU-GCC cooperation can be instrumental in fostering GCC regional integration. Some preliminary reflections are offered in the next section about two policy areas: fiscal and monetary policy, and foreign and security policy.

Lessons Learnt and Pragmatic Cooperation: The New Frontiers of Inter-Regionalism

In a recent paper, Emilie Rutledge outlines the necessary steps that the GCC countries would need to take to implement their long-planned monetary union.¹⁰ These steps draw on the theory of the Optimal Currency Area (OCA) that needs to be based on a few pillars: a single, sound central banking structure, a common market in which labor and capital are mobile, adjustment mechanisms to deal with asymmetric shocks and to compensate for the loss of exchange rate flexibility, and transparent intra-regional institutional regulation and oversight.¹¹ In spite of what is dictated by the theory, all these steps entail some costs as well as benefits, which can only be weighed against the backdrop of concrete political and economic incentives. It is thus not surprising that the actual progress towards achieving GCC monetary union has been uneven and, overall, disappointing to date. After the adoption of the Unified Economic Agreement in 2001, the GCC Customs Union was partially adopted in 2003 with full implementation set for January 1, 2015. The creation of the GCC Customs Union was a necessary step for the GCC Common Market, which had originally been planned for 2005 and was only partially achieved in 2008. In its turn, the GCC Common Market was to pave the way for a monetary union, including a single currency, to be completed in 2010. Indeed, in 2008, before the expiry of the temporal limit, four of the six member countries signed up to a Monetary Union Agreement with the objective “to prepare the necessary infrastructures for establishing the Monetary Union, especially the establishment of the Central Bank.”¹² This objective still remains out of reach.

10. Emilie J. Rutledge, “GCC Currency Union: Necessary Precursors and Prospects,” GRC Gulf Papers, August 2014, http://www.grc.net/index.php?frm_module=contents&frm_action=detail_book&frm_type_id=&pub_type=16&publ_id=&csec=Contents&publang=&frm_title=Gulf%20Papers&book_id=84561&cp_id=&frm_pageno=&cop_lang=en (accessed August 27, 2014).

11. Robert A. Mundell, “A Theory of Optimum Currency Areas,” *The American Economic Review* 51, no. 4 (September 1961): 657-665.

12. Agreement Establishing the Monetary Union of the Cooperation Council for the Arab States of the Gulf (GCC Monetary Union Agreement), available at <http://en.gmco.int/about/aggrement> (accessed August 27, 2014).

When conducting the cost/benefit analysis for the actual and optimal completion of the GCC monetary union, the countries in the region can take into account the lessons learnt from the bumpy history of European monetary integration and, in particular, from the painful experience of the recent Eurozone crisis, which severely tested the frontiers of the European monetary area. In other words, the pressure brought to bear by the financial markets to develop strong policy responses to the crisis has acted as a catalyst in the evolutionary search for compromise between the national and European-level powers over monetary and fiscal issues. As argued by Emerson and Giovannini, “while the euro was successfully defended against collapse, the depth of the resulting economic, social and political tensions in much of southern Europe has reignited debate on the optimal frontiers of the European Monetary Union (EMU).”¹³

With regard to the relevance of the ongoing debate and process of regulatory reform at the EU’s level for the GCC, a key lesson from the Eurozone crisis is that a monetary union is viable only among countries whose socio-economic structures are similar or where there are adequate mechanisms to mutualize risks, for example through fiscal transfers. In the run up to the creation of the Euro, no significant consideration was given to the principle of “fiscal federalism,” which would have entailed an EU budget of major proportions to be used with a redistribution function. Having failed to take this pre-operational, or at least accompanying, step ex ante, the introduction of mechanisms such as Eurobonds and shock absorber mechanisms represents ex post crisis management measures with associated heavy costs. Despite different circumstances, a number of lessons can be learnt from the European experience of monetary integration, which could be applied to the Gulf region as well. This does not mean replicating the EU’s model, including its shortcomings, but rather drawing from the European experience to avoid them and to set the GCC monetary union on track, with clear benefits for the entire process of GCC integration. This is one of the merits of inter-regionalism, whereby certain principles, models, and experiences can be exchanged.

A more sustained form of inter-regional EU-GCC cooperation with potentially beneficial repercussions for GCC integration could also take place in the foreign and security policy domain. With political dialogue occupying the backseat in EU-GCC relations, the benefits deriving from an enhanced dialogue on soft security issues would be twofold. On the one hand, by working together to manage security threats in areas of common interest, such as the North African

13. Michael Emerson and Alessandro Giovannini, “European Fiscal and Monetary Policy: A Chicken and Egg Dilemma,” in *Imagining Europe: Towards a More United and Effective EU*, ed. Nathalie Tocci (Rome: IAI and Edizioni Nuova Cultura, 2014), 33.

and Middle Eastern regions, – something the EU has already proved to be able to do in other contexts, i.e., the Balkans – European and Gulf partners could benefit from the possibility of undertaking confidence-building measures with a view to unblocking their political and security cooperation in the near future. On the other, by cooperating multilaterally with the EU on less divisive issues, the GCC partners could strengthen their ability to act collectively as a bloc beyond pending political contentious issues, and thus foster regional integration. Potential fields of pragmatic cooperation in which an EU-GCC joint assessment and common strategy could be developed include migration, conflict and post-conflict management, cyber security, border control, maritime security, and humanitarian operations at sea. These areas of cooperation do not require the use of hard force and are located on the blurring dividing line between domestic and foreign policy.

To sum up, this paper has offered an alternative, forward-looking perspective on EU-GCC relations – potentially a more rosy one – by taking some of the groundbreaking insights provided by the literature on regionalism into account. In particular, by referring to the concept of inter-regionalism, it has argued in favor of considering EU-GCC cooperation as potentially conducive to greater GCC regional integration and not as resulting from it. Some preliminary empirical evidence about regional monetary governance and foreign and security policy has been offered, which would need further analysis for achieving confirmatory results. This is a path worth pursuing in view of its potential to cast new, possibly more optimistic light on the future of EU-GCC relations.

About the Author

Silvia Colombo is a Research Fellow in the Mediterranean and Middle East Programme at the International Affairs Institute (IAI) in Rome. She was the coordinator of the EU-funded project “Sharaka – Enhancing Understanding and Cooperation in EU-GCC Relations” (www.sharaka.eu). She is an expert on Middle Eastern politics and in this capacity she is working on Euro-Mediterranean cooperation, transatlantic relations in the Mediterranean, and domestic and regional politics in the Arab world. Among her research interests are relations between the European Union and the countries of the Gulf Cooperation Council (GCC) and energy dynamics in the Euro-Mediterranean region. She holds a Ph.D. in Comparative Politics from the Scuola Normale Superiore of Pisa (Florence Branch) and a Master’s Degree in Near and Middle Eastern Studies from the School of Oriental and African Studies (SOAS) in London. She completed a traineeship at the International Secretariat of Amnesty International in London where she worked mainly on Syria and Iraq and was a Research Fellow at the LSE Middle East Centre between October and December 2013. She speaks Arabic fluently and has travelled extensively in the Middle Eastern region. Her recent publications include S. Colombo (ed.), *Bridging the Gulf: EU-GCC Relations at a Crossroads*, Rome, Nuova Cultura, March 2014 (IAI Research Paper 14).



Gulf Research Center
Knowledge for All

www.grc.net