

“The GCC should leverage its power to trade as a bloc”, Op-ed in Arabian Gulf Business Insight (AGBI), 28 Jun 2023

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The GCC should leverage its power to trade as a bloc

Nasser Saidi

The GCC faces multiple headwinds as it seeks to achieve growth at a time of increasing global fragmentation, the West’s decoupling from China, climate change risks and the ongoing energy transition away from fossil fuels.

New policy tools are required to address these challenges and generate economic diversification. In particular, dynamic trade strategies will play a central role in realising regional success.

Total trade in goods as a percentage of GDP in the wider Mena region was 65.5 percent in 2021 (compared with 92.8 percent for the EU), indicating a relatively open regional economy.

Nonetheless, that number, ostensibly for the entire Mena area, is largely made up of the trade openness of the GCC bloc, high dependence on the trade of fossil fuels, and very low intra-regional commerce.

To date, the GCC and wider Middle East have missed a trick by failing to leverage the full potential of free trade agreements (FTAs) – international economic policy instruments that facilitate lowering tariffs, remove non-tariff barriers, liberalise access to markets and ease investment flows.

The Middle East and the GCC respectively have 38 and five regional trade agreements in force. This compares with 161 for Europe and 102 for East Asia.

More promisingly, earlier in June the UAE signed a bilateral comprehensive economic partnership agreement (Cepa) with Cambodia. This is its fifth Cepa, following those with India, Indonesia, Israel and Turkey. Another 10 or more are reportedly in the pipeline.

Focus on FTAs

The GCC needs FTAs to promote economic liberalisation, diversify output and lower its high dependence on fossil fuel exports, as well as to attract foreign direct investment and new technologies.

The capital-exporting GCC can use FTAs to protect its foreign investments and help forge new banking and financial links, notably with Asian markets.

In today's turbulent geopolitical climate, diversifying investments and markets have become a strategic priority for the GCC, which holds more than \$4 trillion in financial assets.

FTAs can provide a legal and regulatory framework as the GCC seeks to develop its international capital markets linkages, notably by facilitating the listing of foreign securities.

Against the backdrop of the global energy transition, the UAE and Saudi Arabia can carve a path towards becoming a global hub for renewable and climate financing, complementing their traditional role in oil and gas trade and investment.

To do this, the GCC needs to move towards reducing the existing hurdles for services. This means lowering barriers to entry and easing restrictions on operations.

Services are a strong driver of economic diversification and an accelerated strategy will increase domestic firms' ability to participate in global value chain-based production.

In this regard, logistics are an important factor. The Mena region ranks just behind North America, Europe and Central Asia in the latest World Bank Logistics Performance Index, largely due to the high scores of the GCC region – the UAE is ranked 7th globally while Libya is 139th out of a total 150 nations.

A breakdown by country and sub-indices, however, shows that nine out of the 16 Mena nations achieve low scores in the timeliness sub-index.

To compete internationally, Mena countries must invest in facilitating trade, move towards digital trade facilitation – think e-commerce – and implement a cross-border paperless trading system.

This will result in more efficient supply chains, support regional trade integration, and increase participation in global value chains.

It will also require the dissemination of regular, timely, comparable and high-quality trade statistics to support evidence-based trade policy making.

Bloc power

The GCC should negotiate as a bloc to maximise its potential. As a first step, the customs union should be revived, leading to the re-development of the GCC Common Market.

Also, the bloc ought to move beyond goods trade agreements to negotiate comprehensive, wide-ranging, deep FTAs. It should

modernise the old generation of double taxation agreements to take account of the importance of special economic zones and free zones.

Given the shift of the global economy towards Asia, the GCC should pivot away from historical trade patterns based mainly on energy, to deepen trade and investment relations with major new trade and investment partners, such as India, China, Japan and South Korea. It would also do well to explore links with emerging markets in Africa.

It is high time for the Gulf to negotiate FTAs with China, the African Continental Free Trade Area and the Association of Southeast Asian Nations.

Politically and strategically, a new generation of FTAs could signal a decision to engage on a wider diplomatic front, solidifying the region's international standing and reputation.

The GCC countries are looking to seal international trade and investment deals with a view to "regionalised globalisation", at a time when the rest of the global economy is fragmenting and much of the West is decoupling from China.

Such a strategy on the part of the GCC represents a building block to achieving greater geopolitical stability.

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