The Macrotheme Review

A multidisciplinary journal of global macro trends

INTRA REGIONAL TRADE AMONG GULF CO-OPERATION COUNCIL

Nikhilesh Ravi

SRM University, India Nick.ravi76@gmail.com

Abstract

The paper addresses the intra-regional trade of the countries of the Gulf Cooperation Council (GCC), namely, the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait. We have found that the intra-regional trade is still at a modest level, where the trade intensity index showed negative signals except the UAE, and Saudi Arabia. The study concludes that the unified economic policy of the GCC countries has not achieved its target in terms of increasing the level of intra trade which implies a high reliance on oil export revenues..

Keywords: trade, gulf co-operation council

1. INTRODUCTION

The gulf co-operation council came into existence from may 1981, the major objective behind the formation of the council is to have a unity in the economic and political alliance among the GCC nations viz.,the united Arab emirates,Bahrain,Saudi Arabia,oman,Qatar and Kuwait. The regionalisation of world trade is an evolving pattern that has been in the national stage arena. Regional trade agreements are a part of the rapidly increasing global economy.

With the advent of globalization the world trade organization reported that, there is an enhancement in the Regional Trade Agreements (RTAs) in the fast growing nations. Nonetheless RTAs are not merely based on the trade perspectives.

The formation of RTAs is based on different objectives:

- i) Reformation of the policies that are being done at the domestic level
- ii) Profits generated from the inter dependant trades
- iii) Enhancement in the bargaining power of the regional trade blocks.
- iv) Calibrate the trade that are being carried out on a macro scale

- v) Economies of scale.
- vi) Business strategy and partnerships that form the alliance with the regional trade blocks.
- vii) Accessible market conditions and concessions

Rules and regional institutions are enhanced in which the states enter into a regional agreement. Philippe De Lombaerde and Luk Van Langenhove define regional integration as a worldwide phenomenon of territorial systems that increases the interactions between their components and creates new forms of organization, co-existing with traditional forms of state-led organisation at the national level.

There are specific objectives that are defined in the regional agreement viz. economic, political, environmental etc. The major focus of the regional integration is to remove the barriers to free trade in the region. Gravity model approach is being used to determine the trade flows in this paper. This paper has two objectives to the study namely:

- i) To study the intra-regional trade's contribution to the economies of the gulf cooperation council.
- ii) To study the economic policies formulated by the GCC has added benefit.

2. RESEARCH METHODOLOGY:

The trade flows that happen on an international platform are traditionally modelled using the gravity model approach. The law of universal gravitation, the model is borrowed from physics and in particular Newton's work on gravity. The law explains that the attractive force between two objects is the product of a constant, their masses and distance squared. The relevance of the model to the trade flows can be attributed to the works of Poyhonen (1963) and Lineman (1966). Trade among the Gulf co-operation council: The trade is disaggregated by product group. The total trade is split into product group and then the trade is identified based on systematically above or below expectation. Based on social, geographical and economic variables the value of trades is estimated.

Suppose, total trade = n groups, which we index as p=1, so that

 $Xij = \sum p = X p$, ij, where X p ij is the exports of product group p from country i to country j.

Assuming, S for the set of countries that are members of the GCC, total exports by country i = s are then, $Xi = \sum j = s Xij$.

The trade among the GCC countries that are disaggregated is determined by the total trade of the two countries concerned, Xi, j, together with the economic, social, geographical variables of the model.

Xp, ij =g (Xi, Xj. adjacency ij, distance ij, country/commodity dummy ij)

Where Xp ij, is export value from country i to country j of product group p; total exports of country j measure in kilometres; adj ij is a dummy variable for adjacency or common borders.

The data were obtained from 150 countries. International monetary fund's trade statistics were used to obtain the bilateral trade, measuring in millions of dollars of exports. The sample period ranges from 2005 to 2010; it aims to investigate the recent developments in Regional Trade Agreements and the effects on the international trade.

The scope of the study is limited to the Gulf co-operation council comprising of the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait. The study was conducted for a short period during 2011- 2012. The study is based on the secondary data and the data analysis is based from 2005 to 2010.

The traditional gravity model approach is applied to determine the bilateral exports among the GCC countries, taken to be a function being income, distance, shared borders, language Regional Trade Agreements and Per Capita Income.

2.1 United Arab Emirates (U.A.E):

The UAE became a contracting party to the general agreement on tariffs and trade (GATT) in 1944, and subsequently became the member of the World Trade Organization (WTO).the reports from WTO found that the UAE's tariffs of 5% was significantly lower than the tariff of 15% .as per the UAE'S exports diversification policy less than half of its exports directly comes from oil and gas products. A crucial factor being the Free Trade Zones (FTZ)

- 2.2 Bahrain: Bahrain has established as one of the most diversified economies in the region with services accounting for 74.3 % of GDP, manufacturing 13.3% and oil & gas 11.8%.continued reforms, including the adoption of competition policy.
- Oman: Oman's reform process relates to full economic integration under GCC. With the launch of customs union component was launched on 1 January 2003.oman also participates in the pan Arab free trade area (PAFTA) and has signed a trade agreement with the united states (which is not signed yet)
- 2.4 Kuwait: the Kuwait government had signed a trade and investment framework agreement providing a forum to address mutual trade concerns and needed economic forums.kuwait is one of the largest markets in the Middle East.
- 2.5 Qatar: Qatar's development strategy together with the high international crude prices since mid 1999 has resulted in an impressive economic performance with an average growth rate of 9%.the economy is still dominated by oil and gas.
- 2.6 Saudi Arabia: Saudi Arabia has adopted a development strategy that has resulted in a positive economic performance in the past few years in terms of GDP growth, moderate inflation, and surpluses in both its overall fiscal position and external current account. Furthermore, Saudi Arabia responded with a countercyclical policy to the global economic crisis mainly through a sizeable fiscal stimulus that limited the impact of the world financial crisis, and contributed to reviving world demand.

5. ANALYSIS AND INTERPRETATION:

TABLE NO.1	
BILATERAL EXPORTS : EVOCATIVE STATISTICS	

	2007	2008	2009	2010	2011	
	(\$)	(\$)	(\$)	(\$)	(\$)	
Mean	846	950	1102	1348	2126	
Standard Deviation	60242 676	98 7785	540	95954	151358	

In table 2 the OLS entity estimates of the gravity equation (2). The estimation was carried out over five cross sections from 2007,2008,2009,2010 and 2011. In this table the gravity equation is estimated as equations (2). During the period from 2007 to 2011 the elasticity enhances from 2.08(2007) to 2.32 (2011). The importers income elasticity (co-efficient Yj has been constant over time. The co-efficient Yj represents country i's elasticity of the exports with respect to the income. The bilateral exports have been less affected by the importers income which plays a lesser role. The differences between the rich and poor countries are measure by the Per capita income Ci and Cj respectively. With regards to the per capita income of the exporting country the coefficient of Ci dwindles during the sample period from 1.24 to 1.10. Likewise, the importers GDP per capita Cj, declines substantially from 1.02 in 2006 to 0.74 in 2011. thus per capita income plays a significant role in bilateral export as the period progress. The income and per capita income are significant at the 1% level. Throughout all the years from 2006 to 2011 the distance coefficient is negative and significant at 1% level.

TABLE 2: ESTIMATE OF THE GRAVITY EQUATION

Variable 2007 2008 2009 2010 2011

Income

Yi 2.08(0.01) 2.20(0.01) 2.18(0.01) 2.24(0.01) 2.32(0.01)

Yj 1.62(0.01) 1.58(0.01) 1.60(0.01) 1.60(0.01) 1.68(0.01)

Per capita

Income

Ci

Cj

Distance -2.12(0.03) -2.14(0.03) -2.20(0.03) -2.28(0.02) -2.24(0.03)

Adjacency 1.32(0.13) 1.20(0.13) 1.30(0.13) 1.30(0.13) 1.38(0.13)

Common

Language 1.72(0.06) 1.84(0.06) 2.10(0.06) 2.08(0.05) 2.28(0.06)

RTA:

EU 0.92(0.18) 1.24(0.18) 1.16(0.18) 1.16(0.18) 1.30(0.17)

S.E of

Regression 4.1 4.20 4.36 4.28 4.46

No. of

Observations 22857 24857 27464 29867 31988

TABLE NO.3

GCC POOLED DISAGGREGATED TRADE ESTIMATES

Coefficient
1.16 (0.03) 0.58 (0.03) -0.96 (0.06) 3.20 (0.07) 0.98 8,910

Table No.3 presents the result of the second step of the model based on the equations. The model suggests a significant role that the total trade within the GCC plays in determining the bilateral trades of product groups. Total trade of exporting country within the GCC yields a 1.2% change in exports of product groups. The model suggests that distance plays lesser role in reducing trade within the GCC.A -1% elasticity is reported in table no.3

6. IMPLICATIONS FOR INVESTORS:

The trade flow patterns is analyzed using the gravity model framework and the trade flow between countries can be determined using the regional trade agreements (RTAs). The bilateral trade flows has an indispensable effect on the developing countries as far as this paper is concerned. The geographical immediacy, the influence of the language and the common borders are the main source of influence when it comes to bilateral trade flows as per the findings of this paper. Statistically the regional trade agreements (RTAs) in the developing countries have the largest and significant effects on the bilateral trade flows. As per the examination of the import ratios of the GCC countries it is visible that there is no major impact on its member's bilateral trade, which is very much evident from Table I.

The intra-regional trade flows are substantially low for most of the countries at the beginning and at the end of the year. The largest economy in the region which is Saudi Arabia dominates less than half of the sectors. There is some degree of mineral fuel trade within the region despite the similarities of these oil dependant countries indicating intra-industry trade at mediocre level. Furthermore, the investors have more benefits in investing from the countries that are more significant in the bilateral trade that has indispensable effect on the developing countries.

REFERENCES:

- 1. Anderson "A Theoretical foundation of the gravity equation". The American Economic Review 79, no. 1(1979): 106-1
- 2. Anderson, James, and Eric Van Win coop. "Gravity with Gravitas": A solution to the Border Puzzle. The American Economic Review 93, no.1 (2003): 170-92.
- 3. International Monetary Fund. Direction of Trade Statistics International Monetary Fund, 2007(cited June 2007). Imfstatistics.org
- 4. http://www.uaetrade-usa.org/index.php?page=uae-us-relations&cmsid=64
- 5. http://www.wto.org/english/tratop_e/tpr_e/tp301_e.htm
- 6. http://www.state.gov/r/pa/ei/bgn/35876.htm
- 7. http://www.wto.org/english/tratop_e/tpr_e/tp244_e.htm