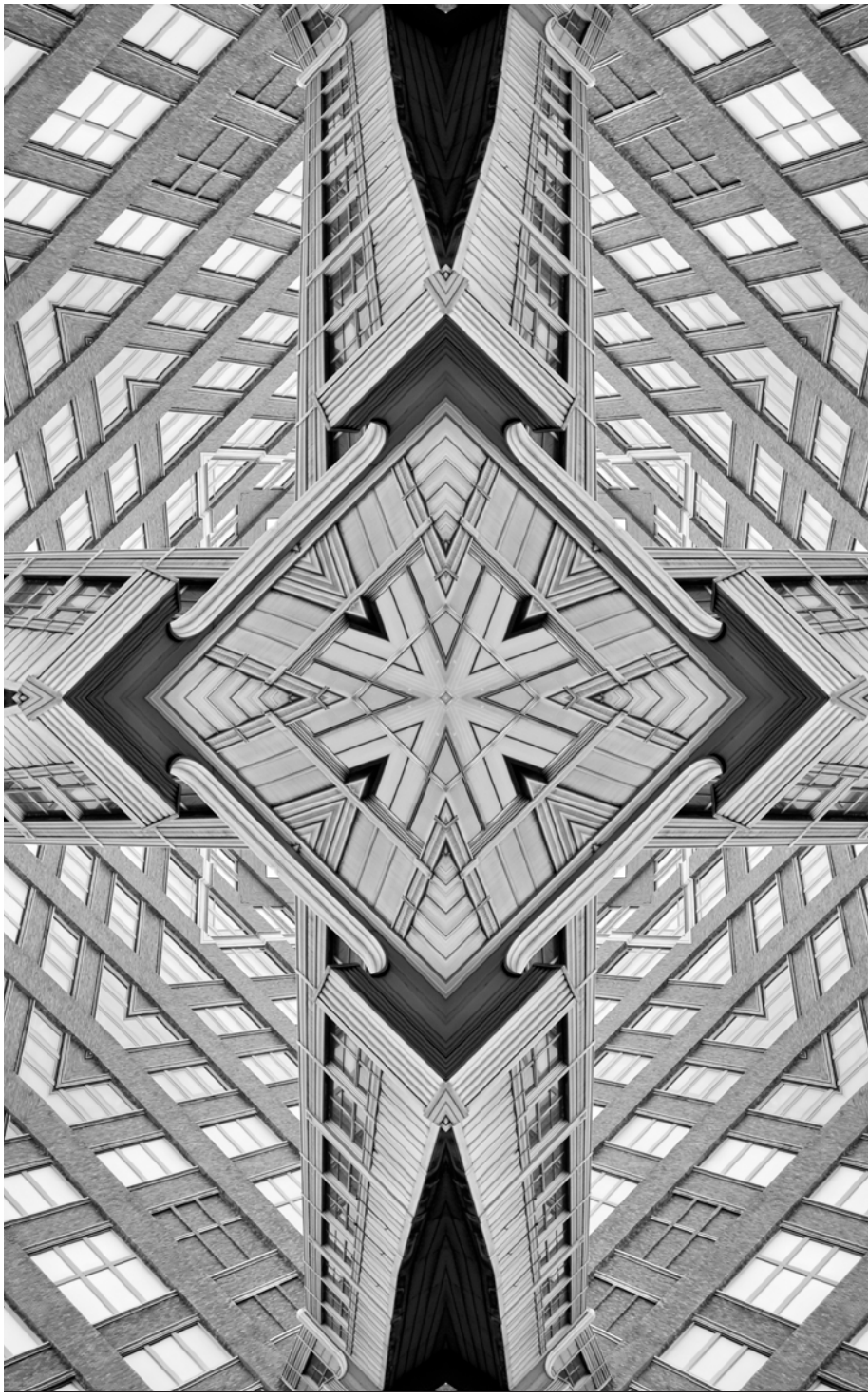
Issue Brief

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The GCC's Trade Integration Challenges

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Abstract

While the Gulf Cooperation Council (GCC) has had many successes in trade integration, including the customs union, these have been challenged by political, institutional, and infrastructural gaps. This issue brief synthesises the shortcomings in trade integration amongst the Arab Gulf states. By detailing these challenges, examining lessons from other customs unions, and highlighting recommendations for the way ahead in light of the situation arising from the Iran conflict, it takes forward the conversation surrounding GCC trade integration. Rather than viewing solo trade agreements as inherently incompatible with the customs union, the brief argues that they can potentially serve as building blocks for wider GCC integration if supported by greater coordination, transparency, and mechanisms that preserve regional trade interests. Finally, the brief considers how the United States (US)–Israel–Iran conflict has reinforced the strategic importance of economic resilience, particularly through expanded trade integration in the Gulf.

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Introduction

The 2026 United States (US)–Israel conflict with Iran and the subsequent attacks on the Gulf states have brought economic integration back on the geopolitical agenda, with renewed urgency due to the need for cross-border logistical routes to boost economic resilience. The Strait of Hormuz blockade exposed a vulnerability and reinforced the requirement for alternative routes. This development has arisen against the backdrop of growing scepticism about the resilience of the Gulf Cooperation Council (GCC)'s trade regionalisation through its customs union. The customs union has faced challenges in securing common external trade agreements, boosting intra-regional trade, and advancing further integration. Some of the biggest issues have been member states signing solo bilateral trade agreements with global partners and incidents of non-compliance with existing agreements.

As the Gulf emerges from the shadows of the Iran conflict, it is important to resolve these tensions to ensure the resilience of the GCC customs union. The union will be crucial for expanding intra-GCC trade routes, as well as aiding the region's collective economic recovery. Beyond the immediate post-conflict context, this also carries long-term strategic importance. As Gulf states set their eyes on mid-century national visions and move steadfastly towards more economic diversification, trade continuity will be central. This requires collective efforts from the Gulf.

This brief argues that while the growing tendency of GCC member states to pursue solo trade agreements does pose challenges to its customs union's integrity, the agreements need not undermine regional trade integration. Rather, when managed through greater coordination, transparency, and mechanisms that link bilateral agreements back to the wider Gulf market, they can serve as complementary building blocks for broader GCC trade integration. Drawing on the experiences of other customs unions, the brief contends that the future of Gulf economic integration depends less on preventing bilateral initiatives and more on ensuring that they reinforce, rather than weaken, collective regional objectives.

The Gulf's Regionalism

While the Arab Gulf states share a common identity, culture, geography, and various other characteristics, the process of institutionalising these ties through the GCC constitutes a form of 'regionalism.'[1] While far from fully integrated, several initiatives have strengthened the GCC's regionalism to create the model that exists today. However, the GCC lacks a supranational body, apart from its Supreme Council to some extent.

Still, when compared to other Middle Eastern integrative bodies, the GCC is the most successful example of regional integration.[2] The lack of a supranational body does not take away from its successful efforts towards regionalism. Two theories offer different perspectives on this—intergovernmentalism, which proclaims that governments or states, acting according to national interests, determine the outcome of integration;[3] and neofunctionalism, which postulates that integration can be less linear, with cooperation in one functional area eventually leading to spillovers in other areas, and governments eventually unable to stop the process.[4] Neofunctionalists may argue that the GCC's successful integration in certain areas will ultimately lead to further amalgamation across other domains, including trade. On the other hand, proponents of intergovernmentalism may argue that the nature of governance in the GCC will create barriers to full integration, as handing over power to supranational institutions will be seen as a hindrance.[5]

Recent scholarship on Gulf regionalism suggests that the GCC should be understood as a shared strategic system where disruptions in one country can have a domino effect across the wider region.[6] In this context, successful regional integration is about strengthening the Gulf's collective resilience and ability to manage cross-border vulnerabilities. Therefore, the GCC's integration challenges should be resolved through a model of differentiated sovereignty, where member states preserve autonomy in areas where national flexibility remains beneficial while selectively deepening cooperation in domains where fragmentation becomes costly.

The GCC Customs Union

The GCC customs union was established in 2003 to facilitate regional trade and harmonise external tariffs.[7] Other integration efforts, such as the 2008 GCC Common Market, partly succeeded, but most initiatives—for instance, the common GCC currency and the GCC patent office—failed.[8] However, even with the successes, such as the customs union, non-tariff barriers create impediments to regional trade integration, especially given the slow progress on intra-GCC logistics infrastructure.[9] Ultimately, trading standards, customs procedures, and regulatory affairs remain far from being harmonised and simplified.[10]

Part of the difficulty stems from the nature of customs unions themselves. Effective customs unions require more than a common external tariff; they need a shared strategic economic vision. In practice, this means that member states should relinquish some degree of flexibility over economic policy in exchange for the benefits of market integration and collective bargaining power. While the GCC successfully established the formal structure of a customs union, it did not fully develop the supranational mechanisms necessary to enforce compliance or coordinate long-term economic strategy.

GCC integration has also historically remained highly state-centric and consensus-based. Unlike the European Union (EU), the GCC lacks strong supranational institutions capable of enforcing trade policy discipline among member states. A supranational body should be able to enforce integration, but the GCC's Supreme Council does not have powers similar to the European Commission.[11] This institutional weakness has made economic divergence easier whenever national economic interests conflict with collective Gulf approaches. As Gulf states increasingly pursue economic diversification and compete for foreign investment, tourism, manufacturing, and logistics dominance, the pressure on the customs union has intensified. These dynamics have become even more pronounced under the various national economic transformation strategies pursued across the Gulf, which makes coordination on trade policy simultaneously more difficult yet more necessary.

However, the customs union has boosted intra-GCC trade, albeit with varying effects, depending on the per-capita gross domestic product (GDP), population size, and the geographical distances of each country.[12] Empirical results from trade figures (1980–2022) reveal that the period after the signing of the customs union saw intra-GCC trade grow, from 17 percent (for Bahrain) to 220 percent (for Kuwait). According to the GCC Statistical Centre (GCC-Stat), intra-GCC trade reached US$146.0 billion in 2024, representing a 9.8 percent increase

from the previous year.[13] Trade may have increased all the more during the Iran conflict due to restricted access to external markets. Nonetheless, GCC countries normally trade more with external partners from Asia and Europe than with each other or with the wider Arab and Islamic world.[14] One of the main reasons for this is stronger economic growth in those regions than in the Arab and Islamic world, which attracts trade flows due to higher demand.

A common misconception is that GCC states do not feel the need to trade with each other because of a lack of complementarity in their products. This is not the case. GCC countries heavily trade with each other in four commodities: oil and its by-products; electrical machinery and equipment; gold and precious stones; and machinery and mechanical appliances, which collectively accounted for approximately 54 percent of total intra-GCC trade in 2024, with a combined value of around US$78.5 billion.[15] In the context of the war, there is also strong impetus for the smaller Gulf states, locked in with no alternative routes to bypass the Strait of Hormuz, to utilise re-export routes via the three larger Gulf states. The Jebel Ali port, for example, could take on more intra-GCC trade, allowing countries like Bahrain to export products to the United Arab Emirates (UAE) before being re-exported via alternative routes, to circumvent the Strait of Hormuz.

A Tilt Towards Solo Trade Agreements

Gaps in the GCC customs union have led to a lack of compliance with a common external trade policy. This has resulted in unilateral reductions or increases in the 5 percent tariff on products imported from outside the GCC customs union, usually driven by independent trade agreements.[16] For a long time, the only exceptions to collective trade agreements were the Bahrain–US Free Trade Agreement (FTA) and the Oman–US FTA.[17] However, today, the situation has evolved. Qatar signed an agreement with Türkiye after the temporary Qatar rift with neighbouring countries, and the UAE started a wave of agreements with multiple partners since 2020, leading to some of these efforts being replicated by Oman, which signed its own trade agreement with India.

In their defence, some of the Gulf countries' unilateral trading strategies may have been partly driven by Saudi Arabia's policies, as the bloc's largest and most geographically central actor. Saudi Arabia excludes goods that originate from Israel and free zones from the GCC customs union procedures. Moreover, the new rules of origin in the Kingdom necessitate that imported products fulfil certain requirements that ensure localisation standards are met.[18] The GCC's slow progress on agreements with several large economies has also been a hindrance.[19]

There is also a political-economy dimension to this shift. Solo trade agreements are mostly easier to negotiate because they involve fewer stakeholders, can be tailored to national priorities, and produce visible economic gains within shorter political timeframes. Meanwhile, negotiating as a bloc requires reconciling six national interests, inevitably slowing progress despite the potentially larger long-term benefits.

This does not imply that the slow breakdown of a common external tariff in the GCC is desirable. Scholars have noted that such region-wide relationships bring greater diversity in economic profiles, enlarge market sizes, boost economies of scale, and enhance attractiveness to foreign direct investment (FDI).[20] The main concern is that an increase in solo trade agreements could be seen as mutually exclusive with the idea of a customs union. The dilemma runs parallel with the debates surrounding the benefits and drawbacks of preferential trade agreements (PTAs) and multilateral trade agreements (MTAs). PTAs can be seen in the same light as solo Gulf country trade agreements and MTAs can be seen as the wider radius of Gulf-wide trade agreements with partners.

These debates, while acknowledging the superiority of MTAs, differ on whether PTAs support the former's proliferation.[21] One theory is that the proliferation of PTAs could create a *de facto* multilateral effect, as countries will end up with overlapping agreements.[22] Another suggests that countries excluded from PTAs would eventually become stronger proponents of MTAs not being left out, thus decreasing pushback against reducing global tariffs.[23] This, in effect, could facilitate multilateral negotiations. In the GCC context, signs are already present that bilateral agreements can stimulate broader regional negotiations.

This can be illustrated by examining the UAE's bilateral agreements with almost 30 countries.[24] The prevalent picture is that such agreements may serve as 'building blocks' for Gulf-wide agreements.[25] For example, the United Kingdom (UK) has concluded a GCC-wide trade agreement while exploring an individual one with the UAE.[26] New Zealand and South Korea have negotiated both types of agreement with the UAE and the GCC in close timing. Türkiye started negotiations for a GCC FTA almost a year after signing a Comprehensive Economic Partnership Agreement (CEPA) with the UAE; so did Australia, Malaysia, and Chile.

Lessons from Other Unions

The Gulf's dilemma is not unique; other countries have experienced it as well. Tensions between national economic priorities and regional integration are common across imperfect customs unions. In many cases, member states pursue unilateral arrangements because collective negotiations move too slowly, fail to reflect national economic priorities, or constrain efforts to attract investment and integrate into global value chains. Indeed, imperfect customs unions can be seen as the norm rather than the exception. Even among highly integrated regions, member states frequently seek flexibility when collective arrangements are perceived as insufficiently responsive to national economic priorities. Moreover, unilateral arrangements are perceived as supportive of investment flows, which makes them attractive. The risk remains that such tensions between members could break apart customs unions that have collective benefits.

The member countries of the customs union Southern Common Market (MERCOSUR)—Argentina, Brazil, Paraguay, and Uruguay—also hold differing views on common external trade policies. Three of them prefer unilateral agreements, while Argentina advocates a common approach.[27] Kenya signed a trade deal with the UK, which entered into force in 2021, causing tensions with the Eastern African Community customs union. There are plenty of such examples.

The EU, too, provides a contrasting model. While EU member states have surrendered significant sovereignty over trade policy to Brussels, the arrangement is supported by robust supranational institutions and enforcement mechanisms that the GCC lacks. The Association of Southeast Asian Nations (ASEAN), meanwhile, exemplifies a more decentralised and flexible form of regionalism, where varying levels of integration coexist with extensive bilateral engagement by member states. In many ways, the GCC resembles the ASEAN model more than the EU one, even if the EU model is seen as a better example of trade integration. This suggests that Gulf states may continue to pursue bilateral agreements and differentiated economic strategies, provided these are embedded within mechanisms that preserve collective resilience. The central challenge for the GCC is to ensure that divergence in economic policy, which is natural, is managed in ways that reinforce the broader architecture of Gulf regionalism.

Conclusion

The rise of solo trade agreements between Gulf states and bilateral partners represents a challenge to the GCC. If unmanaged, it carries clear risks. However, unilateral agreements can also act as catalysts for broader regional integration if appropriate institutional safeguards are adopted. Diverging tariffs, conflicting rules of origin, and competing national industrial strategies could gradually hollow out the GCC customs union and weaken one of the bloc's most important collective economic achievements. The absence of strong supranational institutions further heightens this risk. Yet, the experience of other customs unions along with recent scholarship suggests that flexibility and regionalism are not mutually exclusive.

Some recommendations to resolve these tensions are:

- Increasing transparency so that customs union members seeking solo agreements with bilateral partners can consult and share information on the negotiations with their peers, leading to a shared understanding of the risks involved.
- Reducing the common external tariff to decrease divergence between the tariff rate of the country signing the unilateral agreement and the union members that are not signatories.
- Deepening trade facilitation through technology so that the value of the customs union becomes evident.
- Setting a goal of turning unilateral trade agreements into a collective agreement.
- Revising the rules of origin such that they become more inclusive.

One of the main concerns regarding solo bilateral agreements is that they could undermine or replace the exports from a fellow customs union member. ASEAN, for instance, attempted bi-regional negotiations with the EU—that failed—before allowing members to go solo. Subsequently, Singapore, then Vietnam, concluded agreements with the EU in 2014 and 2015, respectively.[28] The EU–Singapore Free Trade Agreement (EUSFTA 2019) has an 'ASEAN Cumulation' clause that allows Singaporean companies to count product components sourced from other ASEAN members as their own. Some products are only treated as such if they originated from an ASEAN member that has a separate bilateral agreement with the EU, such as Vietnam. Other products

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are more flexible and do not have such a condition, redefining what it means to be "Made in Singapore" and allowing ASEAN countries to benefit from the agreement even if they are not party to it. The Gulf states may do well to consider a similar clause in their solo agreements, which would boost intra-GCC trade integration. This could ensure that solo agreements do not become a threat to the customs union.

Due to increased freight costs because of the Iran conflict, the imperative of trade agreements to reduce the overall cost of trade is even more pronounced. The tariffs in place over products coming in or out of the Gulf countries will need to be minimised to facilitate growth and continuity in trade. Consequently, Gulf countries will probably be more tempted to pursue quick wins and edge towards faster, more efficient unilateral trade agreements. To this end, the GCC faces a choice between viewing solo trade agreements as a threat to regional integration or adapting its regionalism model to accommodate them.

The experience of other customs unions demonstrates that tensions between national economic priorities and collective trade policy are manageable. Rather than attempting to halt the proliferation of solo agreements, GCC policymakers should consider designing mechanisms to channel their benefits effectively. The US–Israel–Iran conflict demonstrated that Gulf economies need to function collectively during periods of regional disruption for economic resilience. Stronger trade integration is therefore a strategic component of regional resilience and crisis preparedness.

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