

### Suggested Title:

The broader the group the greater the clout: the EU struggle to promote regionalism in the GCC countries

### Abstract:

The unrelenting proliferation of international institutions from the time of the United Nations Organization establishment has inspired a number of countries to build up regional and sub-regional associations, differentiating each other for grades of association and States' sovereignty quota transfer. Since 1957 the European Union has been mastering in this practice and, as the level of integration has augmented by, it established itself as the most developed model of regional integration with over 500million inhabitants and a fifth of global GDP.

Being recognized as a model, the EU has engaged to actively transfer its best-practices, as well the promotion of intra-regional dialogue and integration has become one of its most distinctive traits of foreign policy. The second part of this work will demonstrate EU's external action marked preference for regional interlocutors as well, aimed to ease the dialogue within parts in homogeneous region recording low levels of regional integration through the spread its model of governance, ensure regional peace and stability, or facilitate economic gains through the diffusion of the regionalism as practice per se. For the purpose of this work it will be useful to refer to a number of regional groups looking at, more or less overtly and partially, the European blueprint on the path towards the regional integration, with the Gulf Cooperation Council (GCC) analysed in details as case study analysed in this paper and put in comparison with the European experience.

The paper aims to demonstrate then, in its last section, how the Arab World is poorly responsive to this call to a more integrated and operative regional integration throughout the use of the case study, as abovementioned. Albeit it is recognized as a paradigm for the theory of the Optimal Currency Area (OCA) and having undertaken since the 80s' a profitable dialogue with the EU, the GCC has not yet achieved any significant step forward integration. Moreover, the paper will compare the French-German historical antagonism -pinned as engine of the EU's foundation- to the Saudi-Qatari opposition within the regional framework of power. Recording the growing importance of the GCC as balancer in the troubled Middle-Eastern region, the paper will additionally underline mayor fault lines hindering the regionalisation process and the challenges to EU's policy of promotion of regionalism.

### Introduction: a glimpse on the EU blue print

Eric Hobsbawm defined the nineteenth century the "Age of Extremes" and "The Short Twentieth Century", becoming immediately a catch-phrase to define the years squeezed between the 1914 and 1991. The period characterized by the rivalries of the Great Power, International crisis and conflicts has also seen the raising tendency to the foundation of international organization in its second segment, in the aftermath of the Second World War. The unrelenting proliferation of these institutions from the time of the institutionalisation of the United Nations Organization and its agencies has inspired a number of countries to join and build regional and sub-regional associations, differentiated for grades of association and States' sovereignty quota transfer. In essence, this political-legal historical experience has been marked by the limited legal personality of these groups otherwise recognized as international actors towards the Charter of the UN, Chapter VII articles 52-54 [Pennetta P. in Risi C., 2005 p. 183]. The economic regionalism, essentially born in Europe in the 50s' has subsequently inspired the decolonised countries of others geographical areas depicting the scheme, particularly for the Latin American Countries, of collective self-sustained development typical of the new international economic order. Keeping a long and well-known story short, the globalization wave has amplified the development of association tendency marking the turn in this direction of areas commonly unfamiliar with the regionalism experience, as for the Asiatic continent or the former Soviet satellites.

The economic globalization deprived many states of independent monetary and fiscal policies, as it set apart the choice between economic competitiveness and the preservation of social assistance. Hence, the reduction of the States' role boosted the attempts to create global networks and normative institutions, the process has been ideally endowed with the institution of the World Trade Organisation (WTO) aimed to set a stable and multilateral trade regime in a -quasi- global integrated system. The more States' sovereignty crumbled under the hits of globalization or its recent deviated effects such as humanitarian intervention and the global war to terror, the more States has been tried to cling to what was left of their structures [Hoffmann S., 2002].

The horizontal cooperation among neighbour countries is deemed to be oriented towards a more conscious and proactive participation to the world politics of the developing countries to further develop [Hill C., Smith M., 2005 p. 43]. It has been noted that the group identity, together with the consequential repercussion on the association bond, gets across more substantially in small organizations with limited subjectivity and limited number of affine member States. As progression of this associationism trend and flourish of sub-continental organizations, the last decades had shown as well the multiplying of horizontal relations among regional organizations, especially between the European Union and the other external regional groups and entities. These latter may

be tied together for a variety of purposes and with a number of different procedures regulating the organization life, after all, it comes explicit the inspirational role played by the European Community, now European Union [Pennetta P. in Risi C., 2005 p. 185].

The EU has followed a dynamic pattern of organization as shown by the enlargement rounds. Since its establishment with six members in 1957, the EU has grown to count 28 member States with the latter accession of Croatia in 2013 and with still five pending Countries' candidatures. The integration process and its constitution sealed a peaceful, flourish and cooperative environment in the continent once troubled by wars and frictions. The accomplishment led to the EU being awarded the Nobel Peace Prize in 2012, acknowledged that armed conflict among the member states of the EU is at present a remote as utmost far-fetched possible case-scenario.

Notwithstanding some troubles and skirmish among member States popping up now and then in the field of external action, common defence, immigration policies and, most notably, with the common currency and the incomplete European sovereignty structure, the EU has been protagonist of a significant political and economic development which both member States and citizens benefit of. With over 500 million inhabitants and a fifth of global GDP, the EU remains the most advanced experiment in multilateral cooperation and integration to date [Koch C., 2014 p.2].

When in office as President of the European Commission for the 1999-2004 mandate, Mr Romano Prodi had to say that the European model of integration appears to be the most developed and operational on a continental scale, although far from being perfect, it may be effective also at a global scale [Prodi R., Speech 00/115 EC, 2000]. Symbolizing the stances of regional integration, it has been considered a model to be followed on the long run, as an ideal-type albeit not to confuse the aim with the path. To be precise, the European path is just one of the multiple arrays of ways to reach the regional integration, and it must not be mistaken as a unique experience as it has been featured by the historical and cultural peculiarities drenching the European integration process. Bearing it in mind should be sufficient to keep away the critics claiming the umpteenth Eurocentric attempt to universalize the Western standards. In rough words, the level of regional integration reached by the EU shall be seen as an objective, while its practices as possible stances to achieve the final goal under the multiple shapes the regional integration may take up. Aware of embodying the guardian, or better, pioneer role of the regionalism, the EU is not jealous of its "success" and it rather works on the diffusion and promotion of the integration practices providing the third Countries with support to this kind of initiatives.

The latter EU trend when entering into formal and/or economic cooperation with third parts and regions is to willingly share its expertise, benchmarking the "region-making" process where the initiative is still at its embryonic form, or supporting the regional initiative to take the leap.

The level of expertise reached by the EU does not come out of nowhere, although it touches nowadays such high level of integration which were unthinkable for the father founders of the EU venture at the time of the signature of the Treaty of Rome. With the increase of the EU law architecture and institutionalisation of its practices, especially referred to the latest stances ruling the European External Action Service (EEAS), it came to include in its strategy leading the external relations also the support and promotion of regional integration between EU and other regions since 1990s'. A significant piece of literature supporting this assumption mentions the Cotonou Agreement between the EU and the African, Caribbean and Pacific Countries (ACP) being the point of reference for the successive experts' meetings held between the European Commission (EC) personnel and ACP's delegations working in the direction of a more effective deploy of the potentiality of the agreement, besides the constant European support to the regional integration within the geographical groups as well as to boost the region to region dialogue. As ambitious as it may sound, the European initiative may implement and, where absent, "build markets where economies of scale, return on investment, and enhanced domestic competition become really meaningful and stimulate economic growth and employment."<sup>1</sup>

The range of the Cotonou Economic Agreement looked at a side back positive effect on the regional economic integration of the ACP area, whereas the view of the EC gauged the constructive role of an cohesive market as trigger to integrate the ACP in the world economy, stimulate investments and to push the path towards the needed structural reforms in these Countries.

The regional economic cooperation is often seen as driver of a more effective and aware participation of the Countries and population to their history and economic development. Empirically, it has been proved that the smaller number of member States can help to cement the cohesion and the identity of the group, making stronger the organization though.

Putting in comparison the EU and the chosen case study for this paper, they both started with six Member States but, while the GCC has not provisioned concrete enlargement process<sup>2</sup> either to

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<sup>1</sup> Fragment of former Commissioner, trade portfolio, Peter Mandelson remarks on regional integration, speech to the EU-ACP Joint Parliamentary Assembly meeting in Bamako about the significance of regional integration in EU external relations in 2004, quoted in Farrell M., 2009 p.3.

<sup>2</sup> The possible accession of the Yemen has never been taken in real consideration, neither after the unification of the Country in 1990. The permanent status of turmoil and civilian unrest, plus the huge discrepancy between the Yemeni economy compared to the far much more wealthier GCC Countries and the internal tribal skirmish had prevent the viability of the joining project. These apparently insurmountable hurdles had also made impossible to overcome the most visible problem hindering the Yemeni adhesion to the Cooperation. The geographical argument which comes along with the claim that the Yemen is not, at any stance, a Gulf Country. Difficulties for Yemen to see feasible its joining to the GCC came also from its relation with Saudi Arabia and Oman. Especially true for Saudi Arabia, their relations turned to be troubled after the revolution in Yemen in 1962 and, worst, after the measures taken by Riyadh to expel the migrants workforce flowing from Sana'a' in the wake of President Saleh support to Saddam's Iraq invading Kuwait. Yemen is a quasi-failed State, whose destiny is ultimately clinched together the GCC's ones. In case of Yemeni crumble, the outcomes would affect the whole region and its bordering neighbours – in terms of refugees flows and

further develop their cooperation, the EU has evolved and with its number state, also its institutions and powers have grown progressively [Schiavo A., in Risi C, 2005, p.113]. Meanwhile, other projects involving trans-regional and/or multi-continental associative form of cooperation took timid leap, with the fortunate cases of the League of Arab States<sup>3</sup>, the Organization of Islamic Conference – OIC<sup>4</sup> and, the Asia Pacific Economic Cooperation –APEC<sup>5</sup>.

This records the cross of the geographic limit delineating the associative phenomenon to the European experiment. Whereas there is legal personality and the institutive charter of the organization allows to contract, the latest trend in the field is the development of –regional–organization to organization agreements, specifically for the purpose of this work, the European Community/Union with other non-European groups. The procedure is executed through traditional technical-legal practices of the codification in international law, according to the relations amid the scope of the organization and the States sovereignty. The gauge of the relations lies on the *modèle* of integration and power transfer from the Member States to the Organization.

If the organization is enabled to approve acts with binding command decided by its organs and it has a complex structured institutional architecture, as for the case of EU, the organization follows the *modèle subordonneur* when ruling over the sovereignty and decision making process. Thus, its system can be described as –quasi-autonomous and complete whether the organization is provided with a Justice body appointed to express evaluation with regard both the institutive text and the respect of the mandatory acts emanated by the law-making organs. Conversely, the *modèle* followed by the other regional and intra-regional organisation, likewise for the GCC, can be defined *coopératif* as the decisions are taken with intergovernmental form, with the sovereignty results intact and prevailing on the organization functions. Here, the organization’s duties and power are far much more limited and these are regulated by the general provisions of the international law, assigning to the organization the role of coordinator deputy to manage and try to merge Member States’ positions. Assuming the European example as a keynote case of *modèle subordonneur* of

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political instability. As for the negative outcomes, the attempts to rescue Yemen from the political-, social- and economical marsh can only come from the GCC countries. [www.english.alarabiya.net/views/2012/05/31/217688.html](http://www.english.alarabiya.net/views/2012/05/31/217688.html)

<sup>3</sup> The League of Arab States, founded in 1945 with the Alexandria protocol, is a trans-regional organization as the membership is opened to all Arabic speaking Countries that consider Arabic language the main language of their nation; the League also requires that the people of that particular country must believe that they are actually Arabs. The Arab League is a political organization which tries to help integrate its members economically, and solve conflicts involving member states without asking for foreign assistance. It counts now 22 Members around the North Africa, Horn of Africa and Southeast Asia. [www.lasportal.org](http://www.lasportal.org)

<sup>4</sup> The OIC has an international extension similar to those of the international organizations but, the membership coverage is limited to the Islamic Countries cooperating safeguard and protect the interests of the Muslim world in the spirit of promoting international peace and harmony. At the moment it has 57 members from all the continents, except Europe where Bosnia Herzegovina sits as observer in the OIC. [www.oic-oci.org/oicv2/](http://www.oic-oci.org/oicv2/)

<sup>5</sup> According to International law, the APEC is a trans-continental organism and not organization as it is formed of economies and not States, having so a limited legal personality. It includes the 21 economies on the Pacific rim seeking to promote free trade and economic cooperation throughout the Asia-Pacific region. [www.apec.org](http://www.apec.org)

supranational organization and gauging the outcomes of more than 50 years of integration process, many extra-European organizations are launching initiatives to bolster their structures and to broaden the scope of action so to meet fixed objectives [Pennetta P. in Risi C., 2005, p.185]. Further, it is noticeable an “Asiatic stance” in the way this peculiar actors act when handling with cooperation and transferring sovereignty to regional supranational organizations. The process originates from political-diplomatic accords and first action of cooperation then followed by the treaty. Exception to this course is perceptible with the GCC, which built up the cooperation on the ground of the Charter. Notwithstanding the willingness to cooperate and the perceived consideration of making bulk in response to contemporary challenges, these so-called Asiatic forms of association are totally respectful of sovereignty and barely taking into account the concrete opening to transfer quotas of it to supranational organizations.

Additionally, the role of law in the integration process has to be taken in consideration by questioning the role played by the European Court of Justice (ECJ). Its extensive work of interpretation of the provision of the Treaty of Rome, its amending clauses and treaties, as well the *acquis communautaire*, it implemented the legal basis and power of EU as supranational entity in the process of integration. Acknowledging the influential role played by the ECJ, it must be pinpointed at this stage of the work that it cannot be advocated in the EU mission to spread the “regionalism word” as both the ECJ nor the EC and its practices can be extended beyond European borders. The feasibility of the exportation of the EU model can be made only through the sharing of best-practices, whether the third parties are willing to entrench the regionalization practice seen the territorial applicability-range of EU provisions to its Member States and to those subject to the EU enlargement process.

#### The issue of exportability of the model

Giving priority to analysis focused on the economic driver for regional integration, the disquisition risks to lack of elements that may additional support the regional grouping trend and the EU pursue of region-to-region dialogue. Indeed, the security and stability matter is a significant voice involved in the whole affair related to the regionalization of contemporary world politics. As the eminent scholars Buzan and Waever had to say in 2003 in their work “Regions and Powers”, the post-decolonization and post-Cold War international security architecture has experienced the sheering impact of the regional patterns on the international scenario stability. The regional integration has to be seen though as a proper instrument to target and face together to challenges posed by globalization, intraregional interdependence and negative economic asymmetric spillovers.

Whether the merit for the operability of the regionalization pattern comes from strong supranational institutions or the willing of the single State-units composing the regional cluster, there must be solid argument sustaining the regional project brought up by the EU. Besides, the viability of the EU regional pattern abroad has yet to be proven, avoiding to fall under the critics of Westernization attempt or to apply a heterogeneous model to different realities. The one-size fit all idea cannot be applied in this case, as cultural and local features turn out being binding-variables of the process. Thus, bespoke measures are required as well as able tailors to sew custom-cut form of regionalism. Nonetheless, the contemporary world politics and unipolar international system lacks of a recognized leadership, and more specifically of innovative leaders and global governance institutions. May the EU regional integration pattern be the silver lining of this dark cloud?

The answer depends on the ability and promptness of the EU to recognize and accept its pioneer character in the regionalism affair. The resulting perception is that the diffusion of the regionalism and region-to-region dialogue is a twofold process, being partially the result of an internal policy-making willingness to face the challenges of the contemporary world as a group, besides the inspirational role of the alluring external European model. Seen widely as an attempt to preserve its trade power, the EU has fixed the encouragement of regional cooperation as one of the core actions to achieve its objectives, with the result to push its image as brand-new power active on the field of soft power through its normative leaning in external policy. Yet, seen the unfeasibility to engage third Countries not involved in the EU borders' enlargement process throughout the extension of the EU practices and legal body, the EU keeps its market as a not-so-secret weapon. Indeed, trade and investments are EU leverages and assets when it came to export goods, services and thoughts, defending economic interests and promoting norms. *Tout-court*, the EU features as a power in trade setting the standards through trade. The EU blue print is vital as it succeeded in the process and can positively impact on other groups' integrative schemes, whereas these groupings face challenges connected to weak levels of integration or significant disparities within the groups. Moreover, its expertise serves to reduce the possible spillovers resulting from the elimination of the duties and barriers for those Countries whose national financial income highly relies on these tariffs.

Thus, it is important to keep in mind that the cultural particularism and local patterns plays a significant role in the affairs as to hinder the EU model to perfect fit to other case scenario, as obvious as it may sound, every region must develop its specific system of integration in accordance with the historical *momentum*. As said before, the integrative paths follow multilayered stances, as well as the decision of the quota of power to be devolved to the institutions thriving from the regionalization process branching off in the two *modèles* of integration. It may be useful for the purpose of this study to briefly sketch the difference between the concept of regionalization and

regionalism. Roughly speaking, the regionalization process is marked by increase of commercial and human interactions within a well-shaped geographical region without the blossoming of formal and institutionalized regional structures. Meanwhile it may trigger a regionalist development, it is not forcedly subsequent as the regionalism expresses common sense of identity within a given region but it must couple with a top-down governmental procedure going through intergovernmental talks to negotiate the juridical framework to create the region. Summing up, the first looks more like a spontaneous process following the existence of similarities in a *de facto* region; conversely the regionalism is more a *de jure* constitutive mechanism. Conversely, asking to scholars and experts in the field what comes first, and what is suitable to have first, if the regionalization or the regionalism, it is like the issue of the chicken and the egg. What has to be noted is that they can be independent processes existing despite of the other phenomenon.

Usually, the prime pump relies on the entrenchment of economic trans-borders economic exchanges ending up with a deeper integration of adjacent economic entities. Only with the possible forthcoming intervention of political initiatives the process undergoes its institutionalization by taking the first steps towards the regionalism. Drawing up the lines, till now the EU ability to promote regional integration outside its space of territorial enlargement has set new standards of alternative governance answers to the contemporary world politics due to its soft power ability to coopt and appeal other actors. Provided that this is not a unilateral process as the other regional entity must be responsive to the hints and willing to engage the process.

Beyond the willingness to emulate EU, there must be an attentive gauge of the risks and costs connected to the process connected to the degree of integration pursued. A good springboard may be economic integration objectives and institutional designs that resemble, at least in their form, some of the features of the EU model nonreplicable but at least transposable.

The EC, entrusting the economic drivers as the springboard of regional integration has also developed a so-called "toolbox" for Economic Agreements which enlightens the keys for succeed in the regional integration. This instrument, developed in the wake of the ACP Agreement signature has underlined five elements basically to reach the desired aim to translate into other global regions the EU experiment. Firstly, the EC endorses the creation of trans-regional customs union and to liberalise trade in services through the simplification and harmonisation of regulatory supranational system. This latter may affect also the whole systems, often entangled, ruling on the technical regulations and trying to set up supranational authorities with regional scope to regulate and enforce competition, establish rules and standards for consumers, labour, environment, property and intellectual rights, e.g. Then, the regional group may consider suitable the attainment of a fiscal union and the creation of monetary union.

Whereas the Euro is under the gun of critics today, it still represent a vocational model to which regional groups look at when taking in consideration the creation of a monetary union and single currency-area. This is not only the case under analysis in this work, but also it may be referred to other regional groups willing to integrate their currencies like the ASEAN+3, the East African Community and the West African Monetary zone.

To help determine which economic conditions and geographical region are the most suitable to host a unified currency comes useful the Optimal Currency Area (OCA) theorized by Mundell in the 60s<sup>6</sup>. A monetary union envisions the setting of a fixed exchange rate regime<sup>7</sup> in a limited geographical area, removing costs of transactions connected to the exchange of foreign currencies.

According to Alesina and its academic team [2002], the theoretical features for establishment of OCAs can be summed up as: Economic openness, Mobility of factors of production, Degree of economic diversification, Convergence of the inflation rates, Consistency of fiscal policies, Political will [Alesina, Barro, Tenreyro, 2002]. These, may not be present all together at the time of the union creation, but they can appear *ex post* as result of the union itself. Agreeing with Mundell, “If the world can be divided into regions, within each of which there is factor mobility and between which there is factor immobility, then each of these regions should have a separate currency that fluctuates relative to all other currencies. This carries the argument for flexible exchange rates to its logical conclusion. But a region is an economic unit while a currency domain is partly an expression of national sovereignty”. Where an asymmetric shock hits the region, the mobility of productive factors should work as adjusting mechanism, and not a flexible rate exchange. Working at the same time as a mean to ease the positive return during market imbalances, the currency union would be reasonable in presence of a high degree of merger among its members, combined with a low degree of openness between the single States in the group and the rest of the world. Moreover, using the exchange rate as a means of adjustment to external shocks is efficient in a relatively closed economy, and quite useless in a relatively open one [Al Khater K., 2012].

The 1970 Werner report, on the economic and monetary union in the EEC, offers a satisfying definition of the characteristics of a monetary union, with the principle: “A monetary union implies inside its boundaries the total and irreversible convertibility of currencies, the elimination of

margins of fluctuation in exchange rates, the irrevocable fixing of parity rates and the complete liberation of movements of capital.”<sup>8</sup>

Hence, monetary unions could be defined as geographic areas throughout a single new currency, whose exchange rates are permanently fixed, is accepted as a primary medium of exchange. The aspects better describing a currency union are first of all, a sole monetary policy determined and carried out by a central bank or an inter-connected system of central banks and a single common external exchange rate policy. Besides, the single currency shall be convertible at an irreversibly fixed exchange rate.

In a costs and benefits comparison perspective, joining a monetary union is associated with some gain features such as lowering transaction costs, boosting trade, as it is commonly assumed that national borders matter for trade flows. A common currency should bring more economic stability, outside a framework structural economic downturn [Al Khater K, 2012]. A monetary union entails political benefits as well. Furthermore, the cost of joining a union will tend to decrease with fiscal integration and with the accessibility of public or private mechanisms to downsize various shocks through regional transfers. Taking in consideration States of small dimension but with significant political external influence, as for the Qatar in the Gulf or the Netherlands in Europe, being part of a vaster monetary union amplifies notably the “voice” of these “dwarf” Countries in international forums. Mundell’s analysis may entangle that political borders and currency boundaries not always match, and indeed, as stressed by Alesina [2002] *petite* Countries can flourish in a free trade regime and open financial markets. As other face of the same coin, these may fail to provide efficiently some public goods, subject to large economies of scale, or to substantial externalities. Supposing that currency is one of these goods, a small Country may lack of the bulk to be endowed with an independent and efficient currency.

In contrast, the main cost of acceding a monetary union for a Country is the loss of its capability to define and shape a national monetary and fiscal policy. This constitute a huge loss for those Countries having in their national fiscal policy the inflation “genes”. When in a unified currency regime, the Countries cannot dispose freely of their inflation taxes nor manipulate these to artificially remedy the systemic imbalance in the event of public expenditure surplus.

Despite the low number of States employing a common currency, the fixed-exchange rate regime has governed the history of international economy in the first period of the Cold War, when the US participated in such a regime from the 40s’ till the 1973.

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<sup>6</sup> Mundell, R. *A Theory of Optimum Currency Areas* in the American Economic review, pp. 657-665 [www.aeaweb.org/aer/top20/51.4.657-665.pdf](http://www.aeaweb.org/aer/top20/51.4.657-665.pdf)

<sup>7</sup> In its weaker form of the monetary union, the States may consider to maintain its own distinct national currencies fixing the desired rate of exchange to be kept. Although, the “extreme” form of monetary union with the creation of a new common currency, besides the fixed exchange rates, creates as well a system of reliability and confidence perceived by final users, the people because the costs linked to the abandon of the new set system would be high and the perception is though that it will last. [www.econlib.org/library/Enc/MonetaryUnion.htm](http://www.econlib.org/library/Enc/MonetaryUnion.htm)

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<sup>8</sup> European Commission, DG Economical and financial affairs, the Werner Report, October 2010, [ec.europa.eu/economy\\_finance/euro/emu/road/werner\\_report\\_en.htm](http://ec.europa.eu/economy_finance/euro/emu/road/werner_report_en.htm)

At that time, Mundell's provision was labelled as a mere theoretical exercise, though only in March 1971, the European Member States of the EEC agreed on a three-stage plan to establish a European Monetary Union (EMU), laying the basis for a new era of monetary co-operation.

The 1957 Treaty of Rome said nothing regarding the monetary union of the fledging EC, conversely the 1981 GCC Charter outlined the creation of common currency to push forward the regional integration on the wake of the giant steps taken by the European group by the 80s'. The Unified Economic Agreement articulated the principles of coordination and integration of economic activities, meanwhile, the ECC had already set its own roadmap headed to the full currency union.

On 2002 new year's day, the biggest cash changeover in history took place in the 12 Member States agreeing on the Euro, then completed within two months with the withdrawn of national banknotes and coins, ceasing to be legal tender. Notwithstanding the financial crisis and the ramping euro-scepticism, the European currency is still appealing for the EU members outside the Eurozone, both as model for the establishment of a single currency area abroad<sup>9</sup>. The confidence derived from the "whatever it takes" to preserve the single currency approach of the ECB, in the latter, gave fresh air to breath to the markets and to keep the reserve in Euros. Indeed, as the European interest rates are frequently higher than elsewhere, with a lower inflation rates thanks to the centralized control mechanisms, the investors prefer to locate in European banks their borrowed foreign currencies, dollars mainly. This raises the value of the euro relative to other currencies.<sup>10</sup>

As said beforehand, the Gulf Countries share several homogeneous aspects, similar economic structures, combined with other factors like culture similarities and a common language, supporting the economic integration and the formation of the GCC monetary union. These features create the right environment for the launch of the single currency, that, as mentioned before, it was provisioned by the Art. 22 of the Economic Agreement among the parts.

Derived from the bonds of brotherhood and kinship between the GCC States' leaders, and economic interests of course, the decisions establishing a common market and a customs union smoothed the pace to the launching of a monetary union, in addition to the launch of the joint talk to improve the 1988 agreement with the EU<sup>11</sup>. The initial optimistic hope to reach the currency union by 2010 has been hindered by the uproar of the global financial crisis and the underachievement of the Group,

especially when dealing with single conduction of the external relation and scarce willingness to transfer significant quotas of power to the supranational organizations.

In full truth, the GCC area is already experiencing a sort of artificial monetary union on the basis of their economic performances and the long-lasting peg to the US dollar, eroding the monetary policy independence. This monetary tie, prevented to observe too wide discrepancies in the GCC national inflations' and interests' rates. Moreover, they generally meet the criteria to access the Gulf Monetary Union (GMU), having stable exchange rates and an adequate level of foreign exchange reserves. The decision to enter a stage of customs union, realized in 2003, boosted the international trade fixing a common 5% tax on the non-GCC products import, except for alcohol and tobacco, and at the same time aligned and decreased the average rates of national tariffs on imported commodities [Fasano, 2003]. Noticing the EU success, reasons why the GCC strives to emulate the European pattern comes clear. Moreover, the budget surpluses generated by the oil-trading ensured fiscal stability with low levels of public debt, circumventing what was deemed to be the major hurdle for the EMU. Broadly speaking, government budget deficit to GDP not to go beyond 3%, and a public debt to GDP ratio is kept under 60% [Al Tamimi, 2013].

Being dependent on oil and related activities, suggests that all GCC economies and their business cycles are highly connected. One of the main concerns of the EU in the wake of the sovereign-debt crisis was the inefficiency of their structures to respond to asymmetric shocks, standing that a monetary unions implies the impossibility for a single state to use national monetary policies, as it is conducted by central bank. Seen the symmetric business cycles, the likelihood of an asymmetric shock to take place in the GCC is rather trivial.

Experience, suggests that a monetary union, to be successful, requires to be carefully prepared, on the political and economic scope, so to reduce its potential risks. Above all, a monetary union requires a strong political commitment as national currencies are deemed to be the cornerstone of sovereignty. Moving to a single unified currency needs to be sustained by a solid political will expression of a sound project of supranational cooperation and integration. Some economists, as Mundell and Schlesinger, saw in the monetary union a decisive step towards the political unity [Al Khater K, 2012]. However, the GCC states are facing challenges concerning the choice of the future exchange rate regime, the agreement on convergence criteria, and the need for diversifying their economies. The failure to significantly diversify the GCC economies from the oil and oil-related market gives a noteworthy hint regarding the scarce performances of the intra-GCC commercial exchanges. Taking into account the small dimension of the majority of the GCC members taken separately, they cannot carry out independent industrial development and boost the diversification of business, enjoying economies of scale at the same time. On the same line, the biggest and

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<sup>9</sup> Saidi N., *Gulf Monetary Union still has currency despite Eurozone crisis*, 6 May 2013, al-arabya online news, [www.english.alarabiya.net/en/special-reports/bridging-the-gulf/2013/05/06/Gulf-Monetary-Union-still-has-currency-despite-Eurozone-crisis.html](http://www.english.alarabiya.net/en/special-reports/bridging-the-gulf/2013/05/06/Gulf-Monetary-Union-still-has-currency-despite-Eurozone-crisis.html)

<sup>10</sup> "If the European economy is so shaky, why is the euro so strong?" , the Economist explains, 17 November 2013, [www.economist.com/blogs/economist-explains/2013/11/economist-explains-10](http://www.economist.com/blogs/economist-explains/2013/11/economist-explains-10)

<sup>11</sup> Al Tamimi, *Gulf countries take steps to achieve monetary unity*, Al Monitor, 29 December 2013 [www.al-monitor.com/pulse/business/2013/12/gulf-gcc-monetary-union-central-bank.html#](http://www.al-monitor.com/pulse/business/2013/12/gulf-gcc-monetary-union-central-bank.html#)

strongest economies in the new millennium able to shape the international economic and thus political, environment, they are territorial giants compared to the GCC members singularly. The multi-polar feature of the contemporary world may allow the entrance of a compact Arab group at the heart of the decisional centres. Making single front may create a single economic bloc with an astonishing clout, taking benefits from the new global arena.

Indeed, enthusiastically announced to be launched by the end of the 2013, the Khalijii was provisioned to substitute the national currency only in Bahrain, Kuwait, Qatar and Saudi Arabia, maintaining the pegging system with the US Dollar. Before the announcement, Oman and UAE opted out for political reasons, mainly because of the decision of locating the GCC central bank in Riyadh. The feasibility of the project suffered especially for UAE drop out, whose economy is the second wealthiest in the GCC group; hence, its clout was deemed to counterbalance the Saudi power within a perspective monetary union, provided that Riyadh is the first market and bigger economy in the group, not mentioning the territorial extension and weight in terms of population when compared with the other GCC countries. It is doubtless that also the political matters related to the Arab Spring and the financial aid to transnational actors involved into the popular anti-regimes riots had played a remarkable role in this affair.

Although economic the progressive integration in the Gulf, measures regarding the establishment of legal framework and to empower a central institution to manage properly and independently the single currency across the countries needs to be improved. At the moment, the GCC Monetary Council is in charge to set the rules for the establishment of the Gulf Central Bank and completing the establishment of the Monetary Union, proving that the project is still work in progress and far to be achieved in the next months<sup>12</sup>. Despite of the evocative name decided for the common currency<sup>13</sup> and the fervour of the four States committed to achieve the monetary union in announcing the its launch, the Khalijii has still several knotty passage to get through before becoming a real actor of the global economy.

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<sup>12</sup> The Gulf Business, *Officials Deny Single Gulf Currency Launch*, 4 December 2013, [www.gulfbusiness.com/2013/12/officials-deny-common-gulf-currency-launch/#.UyF-ST95No8](http://www.gulfbusiness.com/2013/12/officials-deny-common-gulf-currency-launch/#.UyF-ST95No8)

<sup>13</sup> Khalijii is the Arabic word for “Gulf”, note of the author.

### The Gulf is not the Old Continent and Saudi-Qatari skirmishes are not the brand-new cloths of the French-German timeworn ones

As mentioned before, the GCC owns the characteristics for being entitled as an international subject of law, despite its charter does not affirm it, as conversely the EU beforehand, owns by institutive treaty [Bartoloni M., 2012 p.13].

The same interpretative practise of extending the legal basis to implement the power of an international organization was operated by the European Court of Justice. Although the Treaty establishing the European Economic Community, article 218 provisioned in 1957 the legal personality<sup>14</sup> with the formula: “The Community shall have legal personality”. Then, it has been substituted by the Article 47<sup>15</sup> with the Treaty of European Union in 2009, this completed indeed the personification process of the European Union by introducing a single personality throughout the unification of the communities. Subsequently, it requires the respect of international law in the full exercise of its external actions as for the remark to the existing personality of the EU *erga omnes* derived by the provision of the Treaty *inter partes* by the bond of the articles 3, paragraph 5<sup>16</sup> and 21 paragraph 1<sup>17</sup> TUE [Baroncini E., Cafaro S., Novi C., 2012 p.3].

The most significant hurdle to its action was without any doubt the conferral principle which allows the EU to act whereas required by the Member States in the limit fixed by the Member States themselves. In order to give States the legal tools to act internationally, it comes precious the contribution of the ECJ with the judgement on the case 22-70 - European Agreement on Road Transport (EART case), March 1971, significantly enlarging the scope of action of the Community [Baroncini E., Cafaro S., Novi C., 2012, p.13].

The coding procedure kicked off the praxis and the jurisprudence of the ECJ has led to the firm conviction of the law makers and Member States to be fully endowed with the right basis to sign the Economic Agreement with the GCC so to achieve the objectives fixed by the Treaty and to harmonize the policies within a sector of action<sup>18</sup>. And indeed, this multilateral agreement sought to promote overall cooperation between equal partners on mutually advantageous terms in all spheres between the two regions and further their economic development, taking into consideration the differences in levels of development of the parties [Ayadi R., Gadi S., 2013]. In this specific case, it is more proper to deal with different levels of institutionalisation of the two parties, seen the

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<sup>14</sup> [eur-lex.europa.eu/en/treaties/dat/12002E/htm/C\\_2002325EN\\_003301.html](http://eur-lex.europa.eu/en/treaties/dat/12002E/htm/C_2002325EN_003301.html)

<sup>15</sup> [www.official-documents.gov.uk/document/cm73/7310/7310.pdf](http://www.official-documents.gov.uk/document/cm73/7310/7310.pdf)

<sup>16</sup> *ibidem*

<sup>17</sup> *ibidem*

<sup>18</sup> [eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61970J0022:en:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61970J0022:en:HTML)

slowing process of supranational devolution in the GCC. Relations between the EU and GCC have always suffered of a lack of leadership, more markedly from the Arabic front, and consequently the absence of a unique vision or strategic plan to channel the EU-GCC dialogue. The constant stops-and-goes which this region to region case undergoes are bonded with the misperception of the EU with regards to the leverages to be used with the Arabic counterpart. The GCC venture originated from economic interests but it came clear since the very beginning that the group bulked together to respond to the challenges coming from the surrounding area, the global instability and the self-consciousness of cannot cope alone, as single units with the threats coming from outside and shaking the whole Middle Eastern macro-region. Plus, the GCC tends to be subject to the stands on regional and ideological issues officially taken by the “leaders” of the group, Qatar and Saudi Arabia namely. Nevertheless, having the European States as cue and realizing that their peoples had a great deal in common among themselves, the ruling families of the Gulf sheikhdoms decided to sign the final agreement for the creation of the regional organization in 1981. Quoting the ruler of the Sharjah Emirate, Sultan Bin Mohamed Al-Qasimi, the national security was the first issue at stake, recognizing the dangerous world in which they lived and the desire to covet the area, showed by the closer neighbours, both ideologically and territorially [Kechichian J., Ramazani R., 1988]<sup>19</sup>.

The reference was perceptibly to Iran and Iraq, at that time engaged in a war early mistakenly valued by the Gulf rulers as a short-duration dispute, before the stalemate had come up [Rizvi, 1982 p.30]. Acknowledged of the support provided by the European during all the crisis the region lived since the Gulf monarchies gained independence, further the ambitious series of goals not limited exclusively, on the paper at least, to the economic cooperation, it drew clear that the relationship was not deemed to be shrank and wringed between both sides’ major economic interests. The choice to fortify the partnership has to be seen as part of European efforts to shape a growing and more influential role in the global power hierarchies as united single union and not due to the transfer of power from its members to the EU. In this wider perspective, the EU lacked at that time of a proper common European strategy toward the Gulf and its security, giving consequently the impression that the US were the only actor keen to preserve the regional stability seen the hard security nature of the Gulf environment. Another factor to be considered is the geographical position. Even though the EU and GCC are not directly bordering, they have a common neighbouring area which was -and still today is- one of the most instable and complex in the whole world politics’ scenario, the Middle East. During the hearing quiz-style that Federica Mogherini sat in October 2014 in the European Parliament to confirm her appointment as High Representative for EU

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<sup>19</sup> Short speech of analysis by Sultan Bin Mohamed Al-Qasimi, Member of Federal Supreme Council and Ruler of Sharjah Emirate, which Kechichian J., Ramazani R. used as foreword introductive section for their work: The Gulf Cooperation Council: Record and Analysis.

external relation, she drew up a wider EU strategy to cope with the turmoil shaking the Middle East since the war in Libya and the post-Mubarak Egypt. Not to mention the latest crisis scenario opened in Mashriq, Syria and Iraq *in primis*, and the not negligible long-lasting dispute involving Israel. This entangled and mischievous scenario poses serious threats to the global peace and security, as well on the immediate geographical proximity, threatens and enlivens the nightmare of both EU and GCC rulers. Lately, the EU policy makers have understood the vital need to engage the GCC in the ultimate attempt to settle these breeding grounds of disorder and violence. The GCC, despite of the subtle politics pursued by some of its Member States, is the only regional organization in the area able to enter an advanced phase of building regionalism and having plural leverages chiefly for the cultural and religious homogeneity to be deployed on these crisis scenario drenched and shocked by sectarian and religious-hatred clashes.

Despite these similarities and the GCC States’ alleged gratitude towards the EU for the blueprint supplied in setting up the regional group exiting the shameful backwater position within the contemporary world politics arena, the relations between the two groups are underperforming and its potential underestimated. As this paper is redacted, EU’s policies towards the Gulf have not changed in the desirable direction of their Europeanization. In fact, the EU performs low level of unity when negotiating with the Gulf counterpart making the bilateralism prevail over the region-to-region dialogue, due to the high-bulk of national and private interests at stake, mainly related to the sector of energy and finance. This predominance echoes the recent leaning taken from the GCC rulers, whereas they show no pursue either willingness to funnel into a more formal and institutionalised channel the GCC-EU relations. Both sides preach multilateralism, but neither side effectively practises it [Koch C., 2013 p.15]. This complex relation reaches anyway its negative peak when the debate covers the normative themes and the core values leading the EU external action, namely human rights and environment protection above all. Subsequently, the enhancement of EU-GCC relations is hindered by these issues, as well as the advancement of the inspirational role embodied by the EU regarding the themes of regionalism and low politics. Additionally, the model of integration shown by the EU has been suffering from the setbacks stemming from the misunderstanding marking the EU-GCC dialogue. Seen the distance separating the list of priorities featuring the EU external action and the GCC as regional group, the cooperation and assistance provided by the EU to back the GCC regional project, as well as the region to region dialogue are unanswered letters and as well, the feasibility of a Gulf single currency and common market. Noteworthy is the response given by the GCC to this dormant relationship, whereas noted the incompatibility of EU’s conditionality parameter with the GCC way to do business, the Gulf group implemented its bilateral relations with other regional organisations, namely ASEAN and Mercosur.



Moreover, the EU-whole continuously crumble when its agenda is set on the themes related to the Middle East, and in particular regarding security and Gulf related items, giving so a very bad image of its unity. Previously, the EU integrative model has been strongly perceived by the six Gulf States as a viable attempt to settle the existing rifts and misperceptions among the GCC States. Indeed, there are a number of historical similarities made of national hostilities and border skirmish, and properly from the hottest border of the European continent, the French-German one, the regionalist initiative has taken the leap. But the interregional main fault line in the Gulf, this separating the Saudi Arabia and Qatar, is not deemed to follow the European track. The particular *momentum* lived by the Qatari-Saudi relations mirrors a black painting for the regional integrative perspectives. The relations between Qatar and Saudi Arabia have always been tricky and extremely complex due to the historical rivalry as disputing the leadership claim in the religious field and cultural one. Within the GCC, the Qatar has gained noteworthy visibility and its power has role has upgraded considerably getting to an end its riotous acceptance of Saudi supremacy within the regional space. Indeed, Doha has always been overshadowed by its bigger neighbour but lately, it achieved to exit the background role which it embodied due to its geopolitical features of microstate. Qatar, as well as the other “dwarf” Emirates have notably increased their power and role within the Middle Eastern affairs and lately, in the international forums as the UN or the Arab League, partially in the wake of the historical upheaval in the region but also due to their work within the GCC. The growing importance of Qatar in the contemporary world affairs is the result of its militancy within the GCC besides the positive performances of its national economy based quasi-entirely on the exportation of energy. The diplomatic hyper activism, as covert financing campaign to religious groups abroad, performed by Qatar lately have demonstrated its transformation in the “dwarf State with the punch of a Giant” thanks to the amplifying stance of belonging with a regional group. Summing up, the Qatari experience within the GCC besides its long-lasting *odi-et-amo* relations with the Saudi Arabia are not leading to double the French-German lead initiative towards the regional integration in Europe. For sure, the troubled environment and the poor results produced by the attempts to differentiate their economies put the feasibility of the regional integrative project in the Gulf on halt.

### Conclusions

As people do not choose their families, Countries do not choose the bordering neighbourhood, albeit out of a deterministic vision tied with the geographic endowment, Countries can try to make of the surrounding environment the proper place where to thrive their interests. The regional integration practices has been deemed as the positive ground for the enhancement and confirm of

the EU as a new-generation actor leading the wave of other global regional groups working on the as entangled as innovative federalist idea of going beyond the Westphalian setting of borders and national States. As seen for the European experience, echoed by the GCC one, the regional integration has led to “bridle” some mischievous elements and conflicts among State entities into a more peaceful and constructive regional framework, where these disputes have been definitely settled for the superior purpose of peace, wealth and stability. Last assumption is true for the EU reality, and still in progress in the GCC case. The blueprint of regional integration showed by the EU has to be considered the most successful and ambitious plan in this field of policies ever seen in the political global history. Used as benchmark by other Countries not involved in the EU enlargement process, the EU model is as suitable as not reproducible elsewhere without operating a transposition of the EU peculiarities to the local features. The visible limits to the EU actions are imposed by the incomplete structure given by the Treaties. Nonetheless being a forerunner in its species, the EU is still a project to be completed, whose main hurdle to be overcome is the Member States' willingness to keep some quota of power in their hands embodying, one of the most classical example of post-modern experiment. Despite being stuck in a gloomy in-between condition hard to be leapfrogged, it still has its appeal, recognising its best practices in securing an area, which has been since bygone days the springboard of international bloodshed and crisis. Although, the practice is still under the lens whether its success is tied with the regional features specific of the old continent or it is a suitable process for the forthcoming years to cover the whole globe. Indeed, whereas the inter-regional bonds as weak or not developed at all, the regional integration process cannot take the leap. As well, it has still to be demonstrated whether the regional integration process can be lead or braced by external actors, as the EU, and if this external support may be beneficial or harm the regional projects elsewhere from the EU sphere. It has to be noted at this point that there is any non-Eurocentric approach to the regional practice and that the groups of Countries trying to carry out regional integration programs are underscoring their aims due to the same difficulties met by the EU during its formation process. Namely, to speak with one voice while seeking after a recognized leadership. Out of the critics caught after the Eurozone crisis and the stalemate of the federalist supranational project in Europe, the EU still attracts the attention of policy makers in different parts of the world, renewing and marking a increasingly interest for the regional integration and cooperation. Among all the successful initiatives set up by the EU in its 57 years of existence, part of its lure emanates from the Euro, able to magnet the attention of other regional unities seeking after a possible union or at least to some form of regional association. The common currency is still able to entice other regional organizations, despite being under the gun of resurgent populism in the Old Continent, whose favourite game is the “name and shame” practice aimed to

charge something or someone for the socio-economic grievance derived by the global financial crisis. The States' of the Arab Gulf looked at the integrative model set up by the EU with interest, notwithstanding the unwillingness to lose their precious national sovereignty obtained only Back to 1971. Provided the model, the engines igniting the foundation of the GCC were multi-layered and mainly retraceable in the international and surrounding scenario. Both the globalisation and the Blocs contraposition fixed in the historical era of the cold war, put the weak Gulf State vis-à-vis with the challenges of the wider World. Both the GCC And the EU Member States had to face the classical geopolitical assumption " The bigger the bloc, the greater the clout", sometimes finding themselves to be mere little pawn of a giant chessboard. Seen the different backgrounds, every organization has a different story with various features, the EU stood as model to be tailored on the other willing to clinch themselves together in a supranational organization. This attraction and its diplomatic conduct fixed the EU as a significant actor of the so-called smart power. Both the EU and the GCC enriched with practical examples the literature of the World Politics academics, being as matter of fact actors of new generation in the post-Westphalia era, featured with transnational movement and threats as well as the globalisation. Seen the change of the global system occurred in the last two decades, the EU-GCC relation need to be rethought and, more properly, rebalanced. The Gulf States, besides being ridiculously wealth and endowed with precious raw materials, they have experienced a growth in terms of power and prestige at a breakneck speed. The lack of a common view of the EU external action has hindered until now the chances of what is a common foreign policy of the EU. Indeed, it is emblematic that when the region-to-region cooperation does not produce the outcomes expected due to structural bounds, the EU Member States circumvent the hurdle by establishing State-to-State agreements and contacts. The reference to structural bounds is to the EU's conditionality politics when it comes to low politics topic such as human rights respect and environment-related topics. The relentless work of extensive interpretations operated by the ECJ has concretely cemented the best-practise of making the respect of EU's values conditional to the conclusion of the whole agreement. And indeed, the conclusion of the favourable FTA between EU and the GCC shipwrecked when the talks hit the hot-topic of the enhancement of the human rights defence and carbon-related issues. A sort of more for more policy towards the GCC pursued with in a more subtle approach than the one used with the MENA region in the wake of the upheavals named under the "Arab Spring". Despite sharing the Arab-Islamic culture, the Countries of the South rim of the Mediterranean are totally different from the Gulf States, at least when external actors have to gauge a series of means to be used to deal with them. Broadly speaking, they do not own the power and the wealth of the GCC, hence the EU cannot think to use the same leverages moved with the Countries of Maghreb or Egypt, Syria, and so on. On the other hand, the

relation with the GCC has demonstrated that it is unviable and barren for the EU to have a unique model meant to be universally applicable to every situation. The EU-GCC relation delivers a lesson to the EU, mainly. Besides requiring a common European foreign policy, it claims the EU to be more attentive of its partners and to develop bespoke solution case by case. This would mainly be a successful approach showing care of the other actors plus, it would enhance the smart power halo emanating from Brussels and its integrative regional model.

Out of teleological path, the exportability of the EU pattern is out of questions, since it must be converted to the regional cultural and historical stances, nevertheless the EU can play the leadership role in supporting these initiatives through its external action toolbox with tailor-made policies and agreements so to boost the region-to-region dialogue.

The practice has seen the birth of considerable regional integration initiatives in South America and in Asia, standing the low institutionalisation features of the groups and the narrow range of the regionalist practice besides the rise of timid dialogue initiatives between regional groups other than the EU, as the GCC – ASEAN initiative. Within the contemporary debate on international relations and the unipolar world without hegemony that the Cold war and the XIX century left behind, the practice of regionalism has seen the growth in terms of power of small States whose impact on the world politics would have been less than trivial outside the multilateral and regional organisations which they are part of. Qatar and its Emirates neighbours learnt this precious lesson by growing their importance and weight backing the economic positive oil-led performances with their institutional participation to the GCC, both boosting their role on the world stage either counterbalancing the power of their bordering counterparts. Despite the existing environment in the Gulf and the perception that only together these small States can face the challenges posed by the contemporary international system and the dangerous neighbourhood, the EU support initiative towards a more integrated GCC structure is undermined by the resistance opposed by these Countries and misperception of the parts, with the EU unable to stand its unity and promote its core value when dealing with the oil monarchies.

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