



China-Arab Trade and Economic Forum

Progress of China-Arab Trade and Economic Relations

Annual Report 2012

ENGLISH



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Table of Contents

ACKNOWLEDGEMENTS / 1

LIST OF CONTRIBUTORS / 2

ACRONYMS / 3

FOREWORD / 1

Chapter 1 Trends of Trade and Investment in Arab Countries / 1

- 1.1 Overview of the Arab Economies in 2011 /1
- 1.2 EU-Arab Trade Ties: An Overview /5
- 1.3 US-Arab Trade Ties /21
- 1.4 Trade and Investment between Arab Countries and Japan /34
- 1.5 India-Arab Ties: A Flourishing Relationship /40

Chapter 2 Trends of China–Arab Trade and Investment / 49

- 2.1 Macroeconomic Trends in China /49
- 2.2 Characteristic of China-Arab trade in 2011 /55
- 2.3 Trade between China and Arab countries /56
- 2.4 The nature of China-Arab trade /62
- 2.5 Foreign Direct Investment in China and Arab Countries /68
- 2.6 Foreign Direct Investment between China and Arab Countries in 2011 /83

Chapter 3 China and Arab Services Trade / 86

- 3.1 Evolution of China-Arab Trade in Services /86
- 3.2 Comparison of China and Arab Countries re. Service Trade Liberalization /91
- 3.3 China’s Project Contracting Business in Arab Countries /95

Table of Contents

Chapter 4 Global Oil Supply in an Age of Uncertainty / 100

- 4.1 Current State of Global Production and Trade in Oil /100
- 4.2 Impact of Iranian Nuclear Crisis on the Global Supply of Oil /103
- 4.3 Trends in the Development of Renewable Energy /108

Chapter 5 Developing Finance / 112

- 5.1 Intra-regional and Inter-regional Portfolio Investment Flows /112
- 5.2 The State of Islamic Finance in Malaysia and Singapore /116
- 5.3 Progress of Internationalizing the RMB /119

Outlook: Promising Investment Opportunities for China / 123

BIBLIOGRAPHY / 126

APPENDIX / 128

- 1. Flow of Funds Analysis: China and Select Arab Countries /128
- 2. Current account balances in Arab countries /130
- 3. Business cycle synchronization in Arab economies /133
- 4. Indicators of Financial Openness /136
- 5. Stock Market Integration: before and after the global financial crisis /139
- 6. Correlations in GDP and CPI /141
- 7. The Role of the U.S. Dollar in Arab Exchange Rate Policies /144



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ACRONYMS

A&A	articles of apparel, accessories including knit or crochet
AA	Aluminums and articles thereof
AGOA	the African Growth and Opportunity Act
AIS	articles of iron or steel
AMA	Agricultural Products
ASEAN	Association of South East Asian Nations
ASEAN+3	ASEAN plus China, Japan and Korea
BCA/GDP	the current account balance to GDP
BP	British Petroleum
CAGR	Compound Annual Growth Rate
CAT	copper and articles thereof
CEO	Chief Executive Officer
CIC	China Investment Corp.
CII	Confederation of Indian Industry and Trade
CITIC Group	China International Trust & Investment Corporation Group
CMI	the Chiang Mai Initiative
CNOOC	the China National Offshore Oil Corp
CNPC	the China National Petroleum Corporation
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investment Survey
CSMAR	the China Stock Market Accounting Research
DBS	the Development Bank of Singapore
E&E	electrical and electronic equipment
EIA	the Energy Information Agency
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FMS	Foreign Military Sales
FSMP	the Financial Sector Master Plan
FTA	Free Trade Agreement
FTAs	Free Trade Agreements
GAO	the Government Accountability Office
GATS	the General Agreement on Trade in Services
GATT	the General Agreement on Tariffs and Trade
GCC	the Gulf Cooperation Council
GDP	the Gross Domestic Product

GSP	Generalized System of Preferences
GST	Goods and Services Tax
HK	Hong Kong
HKMA	Hong Kong Monetary Authority
HSBC	the Hong Kong and Shanghai Banking Corporation
I&S	iron and steel
ICPI	inorganic chemicals, precious metal compound, isotopes
IDSA	Instituted of Defense Studies Analysis
IFS	International Financial Statistics
IMF	the International Monetary Fund
JETRO	Japan External Trade Organization
KAEC	King Abdullah Economic City
M&A	Mergers And Acquisitions
MAS	the Monetary Authority of Singapore
MENA	the Middle East and North Africa
MNB	machinery, nuclear reactors, boilers, etc
MOD	Mineral fuels, oils, distillation products, etc
NAMA	Non–Agricultural Products
NUSACC	the National U.S. – Arab Chamber of Commerce
NXGO/GDP	net oil exports to GDP
OC	Organic chemicals
OPEC	the Organization of the Petroleum Exporting Countries
PA	Plastics and articles thereof
PBoC	the People’s Bank of China
PPI	producer price index
PPMC	Pearls, precious stones, metals and coins, etc
R/P	reserves to production
RMB	reminbi , name for the Chinese currency
RQFII	RMB Qualified Foreign Institutional Investors
RTAs	Regional Trade Agreements
SAGIA	Saudi Arabian General Investment Authority
SCAs	Sharia–Compliant Assets
SDR	Special Deposit Right
Shibor	Shanghai Interbank Offered Rate
Sinopec Group	the China Petrochemical Corporation
SK	South Korea
SOEs	State–owned enterprises
SWIFT	Society for Worldwide Interbank Financial
TC index	The trade competitive advantage index
TIFAs	Trade & Investment Framework Agreements
TNCs	transnational corporations
U.S.	United States
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WTI	West Texas Intermediate
WTO	World Trade Organization

FOREWORD

The year of 2012 witnessed significant improvements in Sino–Arab relations. At the beginning of the year, Wen Jiabao, Premier of the state council of People’s Republic of China, visited three major countries in the Gulf region–Saudi Arabia, the United Arab Emirates, and Qatar. This visit had a profound effect on further strengthening the bonds of cooperation between China and the Arab states.

Economic and trade relations between China and the Arab region continued to blossom in 2012 despite ongoing political unrest in certain countries in the region. Significant milestones have been achieved in the field of economic and trade co–operation. In 2010, Mr. Chen Deming, minister of the Chinese Ministry of Commerce, had proposed at the Ningxia Trade Fair, and again at the first round of the China–Arab State Economic Co–operation and Trade Forum, that both sides should work towards reaching within 3 to 5 years the milestone of \$200 billion in bilateral trade. Now it seems that the value of our bilateral trade will actually exceed \$200 billion by the end of this year, well ahead of the Minister’s expectation.

This achievement is particularly noteworthy given the current world economic doldrums that reflect the lingering financial crisis and serious European sovereign debt issues. The general consensus is that strengthened trade ties and economic co–operation are not only in the common interest of both China and the Arab states, but also serve as a concrete contribution to the global economic recovery.

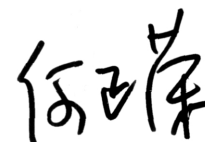
This year the Chinese government made some important announcements in regards to China–Arab economic co–operation and trade. On September 9, 2012, Vice Premier Li Keqiang, who is also a member of the Standing Committee of the CPC Political Bureau, announced at the Ningxia Trade Fair and at the third China–Arab State Economic and Trade Forum that the Chinese government had approved the establishment of “Inland Opening–UP Pilot Economic zone” in the hinterland area of Ningxia Hui Autonomous Region as well as in the integrated bonded area in Yinchuan, the capital city of Ningxia. He also announced that the Ningxia Trade Fair and the China–Arab State Economic and Trade Forum would henceforth be known as the “China–Arab State Exposition”.

A number of policies are underway to support the formation and expansion of cooperation mechanisms between Ningxia and the Arab states. Ningxia is a relatively small province with a total area of 66,400 square kilometres and a population of less than 7 million.

These policies are a blessing for its sustainable development. It also demonstrates the Chinese central government's commitment to the grand program of developing China's central and western regions. By accelerating Ningxia's economic development, the central government intends to ensure that the province is not left behind as the rest of the country rapidly evolves into a middle income society.

This year, we are more determined to continue to publish this annual report. This not only constitutes a continuous effort from the last year's annual report on the "Progress of China-Arab Trade and Economic Relation 2011", but more importantly, it also fulfills a mission of the central government in which "the state supports relevant institutions to step up their research in the fields of politics, economics and culture as these relate to the Arab states and the rest of Muslim world; and the state supports collaboration between domestic and foreign organizations, in order to provide think-tank guidance to foster better communication and cooperation between China and the Arab states and the rest of Muslim world". It is under this historical mandate that this annual report is being published.

This annual report is available in Chinese, Arabic and English in order to allow as broad a readership as possible to better understand the evolution of China-Arab economic and trade cooperation. We sincerely hope that, by providing a platform for experts and academics to share their knowledge and express their views, this publication will contribute to further enhancing China-Arab co-operation and dialogue.



Zhengrong He

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December 1, 2012

Chapter 1

Trends of Trade and Investment in Arab Countries

1.1 Overview of the Arab Economies in 2011

1.1.1 Oil exporting countries: Polarization of growth

In 2011, the oil exporting countries in the Middle East such as Saudi Arabia, the United Arab Emirates, Algeria, Qatar, Kuwait, Iraq and Oman maintained high growth rates, averaging about 11.03 percent. Due to domestic political chaos, the growth rate of Egypt, Sudan, Tunisia and Yemen declined, with Sudan and Yemen especially registering a negative growth.

According to Table 1.1, high growth rates of per capita GDP were maintained for most of the Arab countries in 2011. Especially, countries such as Qatar, Kuwait, UAE, Oman and Saudi Arabia, had an even higher growth rate in their per capita GDP than many of the developed countries. World Bank data showed that GDP per capita of Qatar ranked first in the world in 2011 as it did in the previous year. The political instability seemed to have negative impact on the standard of living of the individuals in the countries where po-

litical turmoil broke out. The per capita GDP growth rates in Tunisia, Egypt, Yemen and Sudan declined markedly, with Yemen and Sudan experiencing a negative growth.

A recent report by the Kuwait Asset Management Investment Engineering showed that oil prices remained high, which in turn accelerated the economic growth of petroleum exporting countries in the Gulf region in 2011. Though suffered from social unrest, the sound economic foundation of the Gulf countries continued to facilitate the stable economic growth. However, in spite of skyrocketing oil prices, the frequent political unrest has led to sluggish and even reduced growth in the countries affected. As Europe is the major destination of Arab export and an important source of tourists, the EU debt crisis could have a profound impact on the growth of the Arab countries. In addition, the rise of mining shale gas and shale oil in the world, which provide substitutes for crude oil, challenges the Arab countries as a main source of global energy supplier increasingly.

1.1.2 Non–oil producing countries: steady growth

The GDP of the oil–importing countries such as Morocco, Jordan, Mauritania and Comoros increased impressively from 2010 to 2011 with a growth rate of 7.40 percent, 5.39 percent, 7.61 percent and 5.02 percent, respectively. The per capita GDP of these countries also rose steadily (Table 1.2). Although with the unrest of the Arab Spring, most of these countries were able to get back on the track of growth quickly.

Affected by the Syrian situation, Lebanon's economic growth showed a slowdown in 2011 with its GDP growing at 5.81 percent as compared to 8.23 percent in 2010. The growth of per capita GDP also declined from 7.45 percent in 2010 to 5.02 percent in 2011. However, the discovery of oil and gas re-

sources in Lebanon and the exploration decree issued in January 2012 may change the Lebanon's status as an oil–importing country in the future. The World Bank predicted that though with a 3.6 percent GDP growth in 2012, with rising oil prices in the future, Lebanon's economic growth would revive in 2013 and 2014.

Due to the different distribution of oil resources, the gap among the Arab countries is large. Compared with the non–oil exporting countries, oil exporting countries enjoy higher per capita GDP. As a result of the political chaos and rising oil prices, the gap between these countries seems widening. For example, Qatar's per capita GDP was 71 times more than that of Comoros in 2010, and the gap rose to 79.6 in 2011.

Table 1.1 GDP Growth of Selected Arab Countries, 2010 and 2011

	2011		2010	
	GDP (US\$ billion)	Growth Rate (%)	GDP (US\$ billion)	Growth Rate (%)
Saudi Arabia	686.18	9.69	625.56	5.85
Egypt	521.96	4.58	499.10	6.36
UAE	380.51	7.77	353.10	2.60
Algeria	313.55	5.30	297.78	4.49
Qatar	166.28	22.04	136.25	17.94
Morocco	163.66	7.40	152.38	4.87
Kuwait	154.02	11.14	138.57	4.60
Iraq	128.23	12.90	113.58	2.01
Tunisia	100.50	0.88	99.61	4.19
Sudan	95.56	-2.30	97.81	5.65
Oman	82.20	8.38	75.84	5.20
Lebanon	62.65	5.81	59.21	8.23
Yemen	58.26	-8.03	63.35	8.94
Jordan	37.13	5.39	35.23	3.49
Mauritania	9.11	7.61	8.46	6.40
Comoros	0.84	5.02	0.80	3.28

Source: World Bank Data.

Table 1.2 growth in GDP per capita of Selected Arab Countries, 2010 and 2011

	2011		2010	
	GDP per capita (US\$)	Growth Rate (%)	GDP per capita (US\$)	Growth Rate (%)
Qatar	88919.12	14.78	77466.22	7.15
Kuwait	54654.46	7.94	50635.01	1.14
UAE	48221.59	2.59	47006.03	-5.22
Oman	28880.43	5.96	27257.15	2.54
Saudi Arabia	24434.25	7.21	22790.47	3.38
Lebanon	14708.56	5.02	14005.08	7.45
Tunisia	9415.24	-0.30	9443.24	3.11
Algeria	8714.57	3.80	8395.45	2.96
Egypt	6324.02	2.79	6152.57	4.52
Jordan	6007.11	3.10	5826.23	1.23
Morocco	4986.36	6.29	4691.13	3.79
Iraq	3890.46	9.72	3545.96	-0.99
Mauritania	2571.09	5.13	2445.71	3.87
Yemen	2349.09	-10.81	2633.69	5.66
Sudan	2140.93	-4.67	2245.76	3.05
Comoros	1117.50	2.35	1091.89	0.61

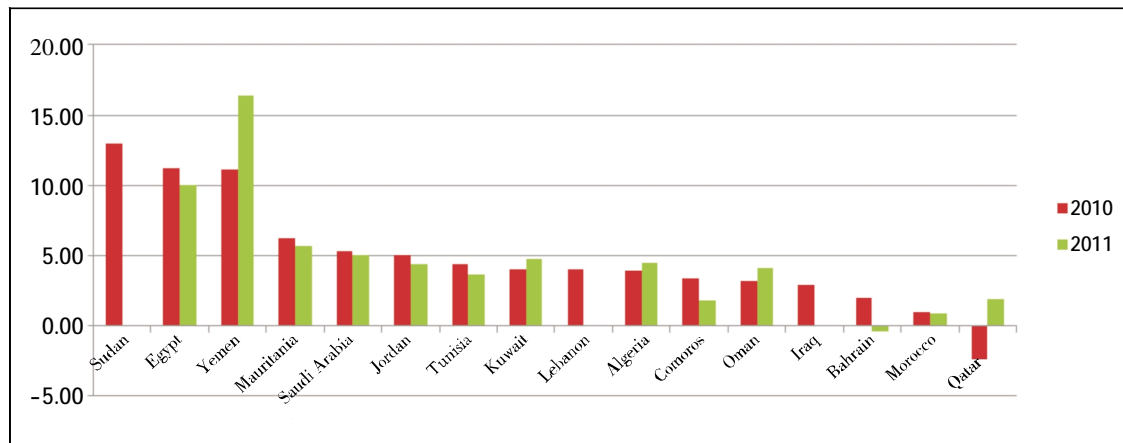
Source: World Bank Data.

1.1.3 Trend of inflation

The FAO food price index rose by 41 percent in 2010. The depreciation of the Arab currencies had resulted in higher prices of the imported food. In addition to higher food prices, the increase in government expenditure by the Gulf countries for the purpose of maintaining domestic political stability, higher real estate prices, and increased money supply all fuelled the current inflation in some of the Arab countries.

According to the World Bank statistics, after the outbreak of the global financial crisis

in 2008, the CPI index growth in the Arab countries generally declined in 2011. But there are still some countries whose CPI growth exceeded 10 percent, such as Egypt at 10.05 percent and Yemen 16.39 percent. Although Sudan's 2011 data is not available at the time of this writing, based on the domestic situation in Sudan, the CPI level may be quite high. Figure 1.1 shows that the CPI of Yemen, Kuwait, Algeria, Oman and Qatar were rising rather rapidly. Inflation in other countries, while some declined somewhat, generally remain at positive level.



Source: World Bank Data.

Figure 1.1 CPI Growth in Selected Arab Countries in 2010 and 2011

1.1.4 High unemployment for the young

High unemployment is one of the main causes of the Arab political chaos. In Tunisia, nearly 52 percent of the young people are unemployed. In Egypt, the unemployment rate announced by the Egyptian National Bureau of Statistics has always been around 10 percent since 2007 while in Algeria though the average unemployment rate is 10 percent, the unemployment of the young (16 to 24 years old) is as high as 22 percent. In Bahrain, Morocco and Yemen, the unemployment rate is 15 percent, 17 percent and 35 percent, respectively. In general, it is believed that the unemployment in the Middle East is the highest in the world.¹ High unemployment has been the roots of many social problems in the Arab world such as extremism, immigration, drugs and social riots.

The population expansion and improved women's status has increased the total supply in the labor market. However, with underdeveloped modern manufacturing industry, heavy dependence on oil production, competition from foreign labor, corruption and

crawling refresh cycle of new posts, young people generally prefer to work in the state-owned enterprises and government. These factors have in fact intensified the unemployment problem in the Arab countries.

Jobs for women are an important issue. Although the status of women has improved, and occupational women have been increasing, it is still difficult for women to obtain high level positions. According to the 2010 United Nations statistics, the proportion of women working as legislators, senior officials and managers and other senior positions are 22 percent in Bahrain, 14 percent in Kuwait, 10 percent in UAE, 8 percent in Saudi Arabia, and only 7 percent in Qatar. Finally, it is difficult to retain labor with good education and high skills.

From 2001 to 2020, the Arab countries may need to add 75 million jobs in order to solve the problem of high unemployment. This is a formidable task for the Arab countries, which they will not be accomplished without developing a flourishing a modern manufacturing and service industry, substan-

¹ Korea Daily in January 29, 2010.

tially improving the education quality and providing women with equal access to job opportunities.

1.2 EU–Arab Trade Ties: An Overview

1.2.1 EU–GCC Cooperation Agreement

The Trade relations between the 27–member European Union (EU) and the Middle East Countries were strengthened and consolidated by cooperation agreements signed with the Gulf Cooperation Council (GCC) countries in 1988 and under the banner of the Euro–Mediterranean partnership in 1995.

According to the EU, the aim of the EU–GCC Cooperation Agreement is to enhance stability in a region of strategic importance and facilitate political and economic relations. The agreement seeks to broaden economic and technical cooperation, particularly in energy, industry, trade and services, agriculture, fisheries, investment, science and technology and the environment.

The parties to the agreement agreed to hold an annual Joint Council/Ministerial Meeting between EU and GCC foreign ministers, and between senior officials of a Joint Cooperation Committee. The 22nd EU–GCC Joint Council/Ministerial Meeting was held in Luxembourg, June 25th, 2012. The EU and GCC Ministers agreed to hold their next meeting in Bahrain in 2013.

1.2.2 Free Trade Agreement Negotiations

The 1988 Cooperation Agreement contained a commitment from both sides to entering negotiations on a Free Trade Agreement. In

1999, the negotiations regained momentum after the GCC declared its intentions to create a customs union.¹ The negotiations started in earnest in 2007. The agreement would bring progressive and reciprocal liberalization of trade in goods and services, aiming to ensure a comparable level of market access opportunities but also taking into account the GCC countries' stage of development.

Negotiations cover, inter alia:

- Market access for goods, services and public procurement
- Common rules and enforcement of intellectual property rights
- Competition
- Dispute settlement mechanisms
- Rules of origin
- Human rights
- Illegal immigration
- Terrorism

1.2.3 Trade between the EU and the GCC

In 2011, EU exports of goods to the Gulf region totalled 72.8 billion while EU imports from the Gulf region reached 56.8 billion. Table 1.3 shows that EU exports to the GCC consist of a diverse array of products but are focused mainly on machinery and transport materials (46.5 percent), power generation plants, railway locomotives and aircraft, as well as electrical machinery and mechanical appliances.

¹ Entry into force: January 2003.

Table 1.3 EU Exports to the GCC

SITC Rev.3(UN,WTO/ITS) & AMA/NAMA**(WTO)Product Groups	2007		2009		2011		Share of Partner in EU Exports (2011)
	Millions euro	%	Millions euro	%	Millions euro	%	
0000–Total	60946.2	100%	57099.7	100%	72254.7	100%	4.7%
1000–Primary products	5885.8	9.7%	6188.9	10.8%	10579.6	14.6%	4.1%
1100–Agricultural products(Food (incl.Fish) & Raw Materials)	4101.6	6.7%	3913.2	6.9%	5972.5	8.3%	5.2%
1200–Fuels and mining products	1784.3	2.9%	2275.7	4.0%	4607.0	6.4%	3.2%
2000–Manufactures	54057.9	88.7%	49425.3	86.6%	59440.7	82.3%	4.8%
2100–Iron and steel	3423.7	5.6%	1969.6	3.4%	2485.8	3.4%	6.1%
2200–Chemicals	5471.8	9.0%	6303.1	11.0%	8571.9	11.9%	3.4%
2300–Other semi–manufactures	5246.2	8.6%	4664.6	8.2%	5774.7	8.0%	5.2%
2400–Machinery and transport equipment	32954.8	54.1%	28907.1	50.6%	33836.0	46.8%	5.2%
2410–Office and telecommunication equipment	6628.3	10.9%	4506.1	7.9%	6621.3	9.2%	8.2%
2420–Transport equipment	7779.7	12.8%	7513.8	13.2%	9595.3	13.3%	3.9%
2430–Other machinery	18101.3	29.7%	16643.2	29.1%	17270.3	23.9%	5.4%
2500–Textiles	416.1	0.7%	398.9	0.7%	481.3	0.7%	2.8%
2600–Clothing	1091.3	1.8%	1017.8	1.8%	1156.2	1.6%	5.7%
2700–Other manufactures	5386.9	8.8%	6132.5	10.7%	7076.5	9.8%	5.2%
3000–Other products	486.3	0.8%	534.8	0.9%	956.0	1.3%	2.1%
Agricultural Products(AMA)	3771.3	6.2%	3821.5	6.7%	5851.3	8.1%	5.6%
Non–Agricultural Products (NAMA)	56493.5	92.7%	52125.0	91.3%	64627.0	89.4%	4.6%
Other Products	681.4	1.1%	1153.1	2.0%	1776.4	2.5%	10.5%

Source: Eurostat.

Table 1.4 shows that EU's imports from the GCC mainly consist of fuels (mostly crude oil) and mining products. In 2007, fuels and mining products accounted for 75.8 percent of EU's total imports from the GCC and in 2011 the share had increased to 81.8 percent. Imports of manufactured products accounted for a rather small share of the EU's imports from the GCC, with the share declining from 22.9 percent in 2007 to 16.6 percent in 2011.

In 2011, chemicals had the highest share in the EU's total manufactured imports from the GCC (8.2 percent), followed by other semi–manufactured products (4.3 percent) and machinery and transport equipment (2.7 percent). The six GCC countries currently benefit from preferential access to the EU market under the EU's Generalized System of Preferences (GSP).