# EXECUTIVE SUMMARY

Business in the Gulf is booming. And it's not just the oil sector. The economies of Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates have been carrying out reforms to encourage private sector growth and diversify their economies away from oil. While oil remains the dominant sector, oil revenues are being channelled into economic development projects, developing new sectors and attracting a variety of businesses.

The five economies covered in this report – Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates – are home to a population of around ten million people, with a combined GDP of around US$170 billion in 2003, roughly the size of the New South Wales economy. In recent years, they have achieved impressive economic growth – Qatar's per capita GDP now rivals some of the wealthiest countries in the world.

The economies remain highly dependent on oil and gas revenues. The United Arab Emirates and Bahrain are the most diversified economies of the five, and the emergence of the gas industry in Qatar, home to the third largest known reserves of natural gas in the world, has helped the country supplement volatile oil revenues with more stable gas revenues.

Other sectors are emerging. The five governments recognise the need for further diversification and are actively encouraging new industries. The services sector, particularly tourism and financial services, is a key sector in a number of the economies. Energy intensive industries, such as aluminium smelters and fertiliser plants, are also being developed.

Some key challenges remain. Stable economic growth has been difficult because of fluctuating oil prices, and would be assisted by further diversification. Oil and gas revenues continue to be the dominant source of investment funds and significant downturns in price would affect growth. National populations are expanding rapidly but, with private sector labour markets dominated by expatriate workers, finding new avenues of employment for national citizens inside or outside the public sector is a challenge.

## RESPONDING TO THE CHALLENGES

Governments are reassessing the large roles which they play in their economies. All five countries, to varying extents, have embraced privatisation as a key tool to increase private sector involvement. Foreign investment restrictions are being relaxed to allow greater levels of foreign ownership, real estate is becoming available for foreigners to buy, a number of taxes targeting foreign companies over local companies are changing and agency laws are being reviewed.

Regional integration, if achieved, should eventually make it easier to do business in the region. The Gulf Cooperation Council (GCC), which also includes Saudi Arabia, is developing as a regional market. The GCC now has a common external tariff, generally five per cent but with a number of exemptions, and has set a goal of monetary union by 2010. The GCC is also attempting to gradually remove other barriers to regional trade and harmonise regulations, but full integration is still some time off.

Despite reforms, a number of obstacles to doing business remain. These include import licensing, product standards, government procurement, business dispute resolution processes, national citizen employment quotas and the remaining foreign investment restrictions and agency laws.

## AUSTRALIA – LINKING WITH THE REGION

Australia's trade with the five economies has increased significantly. Exports to these economies have grown more than twice as fast as Australia's total exports to the world over the last ten years. These economies will continue to offer trade opportunities, particularly with the total value of their imports from the world increasing by around 85 per cent over the last five years.

The United Arab Emirates is easily Australia's largest trading partner among these economies, with two-way trade in goods and services valued at over A$3.7 billion in 2004. But the four other economies are also important export destinations – in 2004 Australia exported over A$1.1 billion worth of goods to Bahrain, Kuwait, Oman and Qatar.

### Merchandise trade

Automotive exports of around A$700 million are Australia's largest single export item to the five economies, having grown from almost nothing since 1995. Other manufactured exports include telecommunications equipment, car parts and construction-related products.

Australia also exports minerals and agricultural goods, particularly alumina, wheat, meat and livestock, and dairy products. More frequent air connections between Australia and the Gulf have also enabled the export of other agricultural products, such as fresh food. With the region's growing populations and limited domestic production capacity, these export markets are set to expand.

### Services trade

Australian exports of services to the five economies include construction-related services, tourism and education, which have been growing at a fast rate, albeit from a low base. The number of tourists from these economies increased by 30 per cent in 2004 to reach almost 30 000 visitors, of which two-thirds were from the United Arab Emirates. Although relatively small in number, these tourists are important as, on average, they spend nearly six times as much as other international visitors.

An increasing number of students from the region are choosing Australia as an education destination. There is potential for further growth as Gulf students look for alternatives to education in traditionally popular destinations and governments focus on education to increase local skills and address employment problems.

Australian education institutions are also becoming active in the region. Institutions such as the University of Wollongong, the University of Southern Queensland and the Hawthorn English Language Centre have established a presence and a number of other Australian education institutions are conducting specific training courses or project work.

### Australians tapping into the construction market

Construction-related industries are booming and Australian companies are tapping into this growth. Rising oil revenues have allowed governments to sustain increased capital expenditures to help fuel the surging construction industry. Dubai leads the construction boom, particularly with its appetite for mega-projects often valued in the billions of dollars, but new developments in tourism sectors, increased infrastructure requirements, and the needs of energy-related industries are delivering opportunities across the region. Australian companies are constructing hospitals, redeveloping airports, building mega-projects and supplying building products. Although competition is tight, the market continues to offer opportunities.

## LOOKING AHEAD

Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates are facing different futures. The United Arab Emirates, particularly Dubai, has been the regional leader in reforms encouraging private business, but competition, both within the United Arab Emirates and from other economies, is increasing. For Bahrain and Oman, development of non-oil sectors is a more urgent priority as they manage dwindling oil reserves. Kuwait's abundance of oil and gas reserves may act as a restraint on reforms, but provides it with substantial revenues to invest and develop new sectors; Qatar's growing gas revenues are likely to support a number of development plans.

To varying extents, all these economies are focusing on development paths that rely less heavily on oil revenues to provide growth and employment. As they attempt to move away from oil dominated economies, further business opportunities, such as those in education and construction, are likely to emerge. Australia's negotiation of a Free Trade Agreement with the United Arab Emirates is likely to facilitate trade with the region and focus attention on Australian commercial capabilities.