Accessing Middle East Growth

BUSINESS OPPORTUNITIES IN THE ARABIAN PENINSULA AND IRAN

EAAU

East Asia Analytical Unit

DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

www.dfat.gov.au/eaau

Austrade contributed to the cost of producing this report.

AUSTRADE
AUSTRALIAN TRADE COMMISSION

National Library of Australia Cataloguing-in-Publication data: 13 September 2000

Accessing Middle East Growth: Business Opportunities in the Arabian Peninsula and Iran.

Bibliography

Includes index

ISBN 0 642 47659 4

ISBN 0 642 47660 8 (CD Rom)

1. Investments, Foreign Arabian Peninsula. 2. Investments, Foreign - Iran.
3. Business Enterprises - Arabian Peninsula. 4. Business Enterprises - Iran.

332.6730953

Design by Green Advertising 13442

ACKNOWLEDGEMENTS

This report was directed by William Brummitt, Director, East Asia Analytical Unit, assisted by James Bloomfield, Deputy Director. Dr Frances Perkins, Executive Director, provided advice and oversight. Initial project design was by Richard Begley, Deputy Director. Nathan Backhouse provided research and administrative assistance.

Australian diplomatic missions in the Persian Gulf region provided invaluable assistance in producing this report, coordinating East Asia Analytical Unit visits to the region and providing data. At the Australian Embassy Abu Dhabi, United Arab Emirates, we thank HE John Hines, Ambassador; Brett Farmer, First Secretary; Muatasim Babakerali, Researcher and Policy Analyst; and Nicole Van Hattem, Executive Assistant. In Riyadh, we thank HE George Atkin, Ambassador; Jeremy Bruer, Deputy Head of Mission; and Jamil Hanna, Second Secretary. At the Australian Embassy, Tehran, Iran, we thank HE Stuart Hume, Ambassador; Chris Brettingham-Moore, Second Secretary (Economic); David Windsor and Miranda Sissons, Third Secretaries (Political); and Mahnia Vakilzadeh, Economic Researcher.

Austrade's network of posts in the Persian Gulf also provided invaluable assistance, advice and administrative support. We thank Roger Bayliss, Executive General Manager at Austrade's Middle East and Indian Ocean Regional Office, Dubai, United Arab Emirates. At the Australian Consulate General, Dubai, (managed by Austrade), we thank Julie Bayliss, Senior Trade Commissioner and Consul General; Susan Kahwati, Trade Commissioner; Greg Coelho and Afaq Hussein. In Riyadh, we thank Damien Fisher, Senior Trade Commissioner; and in Tehran, we thank Ian Davey, Senior Trade Commissioner. We also thank Peter Deacon, Executive Director of the Victorian Government Business Office in Dubai, and also acting Chairman of Australian Business in the Gulf, ABIG, for his invaluable comments, and assistance in developing East Asia Analytical Unit contacts in the region.

Within the Department of Foreign Affairs and Trade in Canberra, Pamela Fayle, Deputy Secretary; Jane Drake Brockman, Assistant Secretary, Middle East and Africa Branch; Bob Bowker, Director; Steve Hill, Executive Officer; and Tony Grenenger, Desk Officer Middle East Section, provided valuable comments and assistance.

Within Austrade, Canberra, we thank Jim Enright, Manager, Middle East and Indian Ocean Office; Matthew Gray, who provided the initial draft of Chapter 3; and Ghassan Zarifeh.

The East Asia Analytical Unit wishes to acknowledge the valuable contribution made by the following consultants: Dr Helen Cabalu, Curtin University; Professor Rodney Wilson, Durham University; Brendan Millane, Key Economics; and Matthew Gray, Austrade.

We thank the Australia Arab Chamber of Commerce and Industry, in particular Syd Giller, National President; Don Moore, Victorian President; Tony Knight, Executive Director; Maggie Bunton, National Director and President of the Western Australian branch; and Rex McCashney, past president, for their valuable assistance with comments and contacts. We also thank Charles Stott, Chairman, Australia Iran Chamber of Commerce and Industry for his assistance.

We thank the Ambassador of the United Arab Emirates to Australia, HE Khalifa Bakhit Al-Falasi and K. Sheikh Hassani, Deputy Chief of Mission, Embassy of the Islamic Republic of Iran to Australia for their information and assistance.

Australian company managers, located in Australia who provided valuable assistance and material include Thomas Harley, Vice President, Mergers, Acquisitions and Divestments, BHP Petroleum; Charles Stott, General Manager, International Marketing and Phillip Hughes, Account Manager, Middle East, Africa and Europe, AWB Limited; Bob McGowage, Queensland Sugar Corporation; Dr Glen Simpson and Gordon Matthews of SAGRIC International; Jack Beighton, Managing Director, and Paul De Angelis, Supervisor, Trade Finance, Arab Bank; Glenn Baxter, Cargo Manager, Australia and New Zealand, Emirates SkyCargo; Geoff Walls, Clipsal; James Cook, Finance Director, Pacifica Group Limited; Roger Peacock, Vice President, University Development, University of Melbourne; Peter Elton, General Manager, Raywood Communications; and Ralph Stevenson and Robert Branson, Export Managers, Holden Limited.

Special thanks also are due to the following people in the Gulf region who gave time to be interviewed by the East Asia Analytical Unit, or supplied material, information or insights.

In Abu Dhabi we thank:

HE Abdullah Al-Turifi, Assistant Undersecretary, International Economic Affairs, Department of Commerce and the Economy; HE Mohamad Omar Abdullah, Director General, Rashed Tarish Al-Qubaisi, Director, Information and Trade Relations, Essam S Azar, Head, International Trade and Promotion Section, Riad Khaleel Mattar, Head of Data Bank Section, Abu Dhabi Chamber of Commerce and Industry; Dr Abdallah Mograby, Head of Policy, HE the President's Office; A.I. Jaffer, Assistant Corporate Director, Barclays Bank; Waleed Hashem, Executive Director, Talal Abu-Ghazaleh and Co; Andrew Garrett, Director, Assurance and Business Advisory Services, PricewaterhouseCoopers; Dr Mohamad Amerah, Economic Adviser, Ministry of Economy and Commerce; Graham John Pirnie, Counsellor and Deputy Head of Mission, British Embassy; Matthew Koch, First Secretary, US Embassy; Anthony Billingsley, Supervisor, Public Relations, Higher Colleges of Technology; Yawar Mian, Gulf Correspondent, *Middle East Economic Digest*; C. Nicholas Cochrane-Dyet, Deputy BP Chief Representative and Local Relations Manager, BP Amoco; Dr Ilyas Halil, Senior Manager, and Martin Harrison, Senior Investment Adviser, Treasury Department, Abu Dhabi Investment Authority; Mahmoud Najjar, Statistician, Ministry of Planning; Sameh Masry, Managing Director, United General Agencies; Carlos Obeid, UAE Offsets Group; and Abed Allah Usama Malki, Economic Adviser, UAE Central Bank.

In Dubai we thank:

Ram Menen, Senior General Manager Cargo, Emirates Airlines; Mohamad A. Azab, Senior Vice President, Arab Bank; Arun Nangia, Regional General Manager, Darren Rickards, Senior Manager, Corporate and Iran, and Eli Chahin, Relationship Manager, Corporate Banking, ANZ Grindlays Bank; John Ferguson, UAE Area Manager, Nasa Multiplex LLC, Regional Manager**;** Barrie Harmsworth, Managing Partner, Al Mutawie General Trading; Peter Sadler, Regional Manager, Novus Petroleum; Peter Nankervis, Senior Manager, International Equity Sales, Securities and Gavin Rezos, Investment Banking Director, HSBC Financial Services Middle East Limited; Pieter Stor, Vice President and Head of Structured Finance Gulf, Tom C. Zwaan, Deputy Country Manager, and Radhika Gore, Analyst, Structured Finance, ABN AMRO Bank; Ralph Shipley, Director, Banking Services, Macro Corporation, Marwan Bibi, Regional Manager, Middle East and Africa, Bonlac Foods Limited; Tim Howe, Managing Director, Al Gaith and Co, Public Accountants; John Rummery, General Manager, Diner's Club International; Robin Allen, Gulf Correspondent, *Financial Times*; Cheryl Crosswaith, Intersearch; Sarah Shouman, Consultant, Australian Agency for Education and Training; Angela Daniels, Corporate Services Manager, Arabian Gulf Network; Lindsay Courtis, Manager Middle East and Edward Griffiths, Clough Engineering; Steven Allen, Sales Manager, Rydges Plaza Dubai Hotel; and Paul Stewart, Sales and Technical Manager, Boral Plasterboard.

In Sharjah we thank:

Sheik Tarik Al Turifi, Deputy Director General, Hamriyah Free Zone; L. Samuel, Managing Director, Clipsal Middle East.

In Riyadh we thank:

Beshr Bakheet, Managing Partner, Bakheet Financial Advisers; Brad Bourland, Chief Economist, Saudi American Bank; Abdulmajeed A. Mobarak, Senior Vice President, Riyad Bank; John Moran, Counsellor and Jack Tucker, Second Secretary, US Embassy; and Bob Craig, Minister-Counsellor and Ian Shaw, Second Secretary, Canadian Embassy.

In Tehran we thank:

HE Mohamad Roohisefat, former Ambassador to Australia and currently Director-General for Coordination of Foreign Economic Relations, Ministry of Foreign Affairs; Aziz Farashi, Director General International Finance, Central Bank of Iran; Kohei Okada, First Secretary and Satoshi Ueki, Second Secretary, Embassy of Japan; Adrian Bedford, Counsellor, Commercial, British Embassy; Fereydoun Behnam, Manager, ANZ Grindlays Representative Office; Babak Pasha, Vice President, Dynaway Corporation; Nazila Fathi, *New York Times*; Siavash Bakhtiari, Iran Office Manager, BHP Petroleum; Reza Momoyezadeh, BHP Minerals; Shun Oda, Tomen Iran Limited; Alexander Zinoviev, Ericsson Iran; Andrew Wilson, Company Secretary, of then BHP Engineering; Toshio Takahashi, Vice President, Marubeni Iran; Mohamad Keshavarz, CEO, Lord Carpet; and Saeed Ouhadi, President, Touring and Automobile Club of the Islamic Republic of Iran.

In Manama, Bahrain, we thank:

The Bahrain Monetary Agency, specifically Dr Naser Belooshi, Executive Director, Management Services, Dr Khalid Ateeq, Executive Director Banking Control, Dr Abdl Rahman Saif, Director of Economic Research, Khalid Rahman, Director, Banking Supervision Directorate, and John Field, Adviser Banking and Finance. We also thank Steven Atkinson, Director, and Jeremy Dixon, Manager, Global Project Finance, ANZ Investment Bank; Hadi Fadayal, Senior Vice President and Denzil Pereira, Senior Economist, Arab Bank; and Rod Brodedlet, Country Manager, ABN Amro Bank Bahrain.

Austrade, the Australian Trade Commission, provided valuable financial assistance for this report.

We also thank BHP and Pacific Power who are the East Asia Analytical Unit's corporate sponsors, and Emirates Airlines and Arab Bank, who sponsored this report.

Editing was by Ann Duffy, typesetting by Robyn Leason, and figures by Lyn Lalor.

EAST ASIA ANALYTICAL UNIT

The East Asia Analytical Unit was established in 1990 as the main agency within the Australian Government responsible for publishing analyses of major economic and political issues in Asia.

Located within the Department of Foreign Affairs and Trade, the East Asia Analytical Unit has undertaken 24 studies on a major issues related to Australia's trade policy interests in the region. This report is the first in a series covering important emerging markets outside East Asia.

Staffed with nine professionals, the East Asia Analytical Unit also contracts a range of consultants with specific areas of expertise. It draws on a wide range of data and information sources, including reports from Australia's diplomatic and trade missions around the world.

Reports and briefing papers produced by the unit are intended to assist analysts and decision makers in business, the Australian Government and the academic community,

Full copies of previous reports and executive summaries now can be downloaded from the Internet. See website details below.

Contact details:

East Asia Analytical Unit
Department of Foreign Affairs and Trade
RG Casey Building
John McEwen Crescent
Barton ACT 0221
Australia
Telephone: 61 2 6261 2237
Facsimile: 61 2 6261 3493
Email: eastasia.analytical@dfat.gov.au
Internet site: www.dfat.gov.au/eaau

Executive Director
Dr Frances Perkins

Directors
William Brummitt
Stephen Scott

Deputy Directors
Brendan Berne
James Bloomfield
Joanne Frederiksen
Michael Growder

Administration
Nathan Backhouse

Internet and Information Technology
Robyn Leason

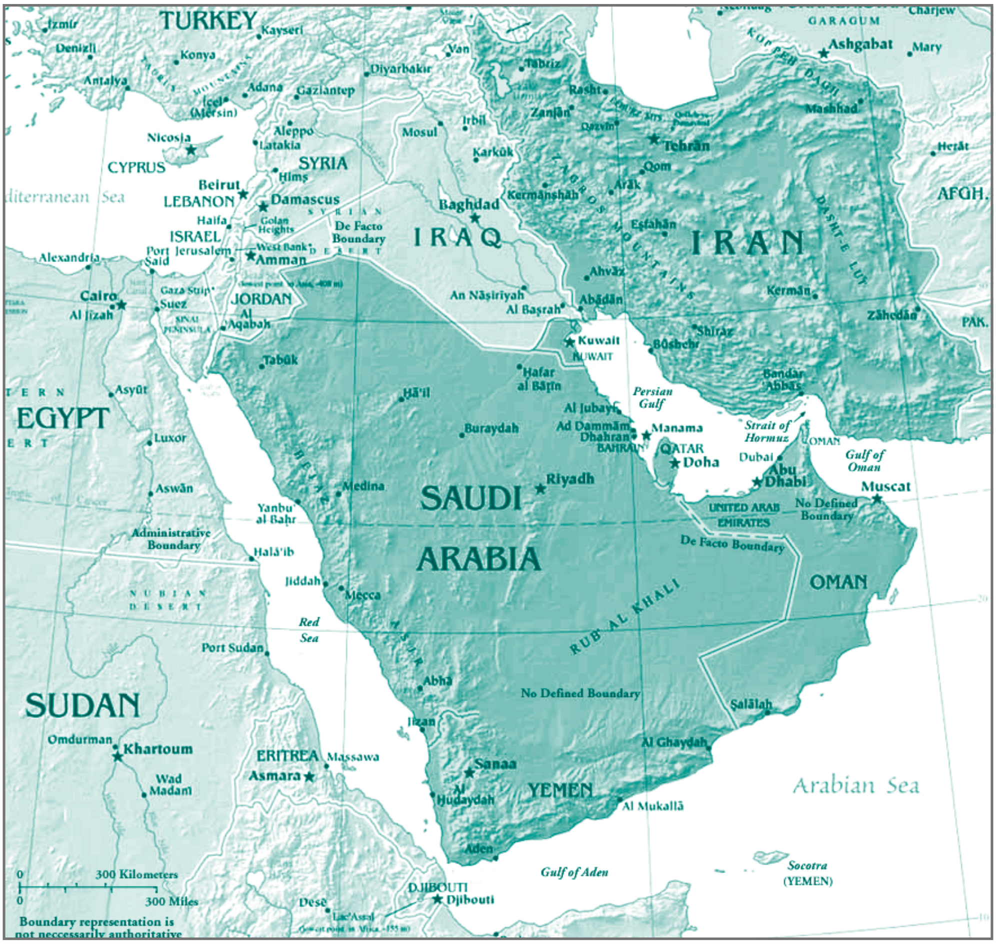
TABLE OF CONTENTS

GLOSSARY

AACCI	Australia Arab Chamber of Commerce and Industry Incorporated
ADIA	Abu Dhabi Investment Authority
ADNOC	Abu Dhabi National Oil Company
ALBA	Aluminium Company of Bahrain
APEC	Asia Pacific Economic Cooperation
ARAMCO	The Saudi state owned oil company
BMA	Bahrain Monetary Agency
BOO	Build, own, operate
BOOT	Build, own, operate, transfer
BOT	Build, operate, transfer
Buy-backs	A mechanism facilitating investment in Iran's oil and gas industries, whereby the 'investor' contracts to perform work, and is paid in project output, usually crude oil or condensate. Buy-backs circumvent the Iranian constitutional prohibition on foreign ownership of Iranian natural resources
Defence Offsets	Provisions incorporated by some GCC countries into defence contracts requiring the primary contractor to undertake a set value of investment in a non-defence sector
Dhow	Small, usually wooden cargo vessel used extensively in the Gulf for small scale, traditional, and often unofficial trading
Dolphin Project	The Dolphin project proposal involves building a pipeline from Qatar's giant North field to Abu Dhabi, Dubai and Oman, to supply gas to meet projected shortages in these countries to generate electricity and fuel industries such as aluminium, steel and petrochemicals in new industrial zones. The project is expected to cost between US$8 billion and $10 billion
Downstream	Oil and gas industry term for the refining and processing of oil and gas, such as petrochemicals manufacturing
Dubal	Dubai Aluminium Company
ETM	Elaborately transformed manufacture
EU	European Union
EFIC	Export Finance and Insurance Corporation, of Australia
Farsi	The national language of Iran, also referred to as Persian

FDI	Foreign direct investment, investment in overseas branches, subsidiaries or associated companies in which the investor owns 10 per cent or more equity
GCC	Gulf Cooperation Council: an organisation comprising Saudi Arabia, Kuwait, Bahrain, the United Arab Emirates, Qatar, and Oman, dedicated to promoting closer economic links and integration
GDP	Gross domestic product: the value of all goods and services produced in an economy in a specified time
GTC	Government Trading Company, an Iranian monopoly importer of many bulk agricultural commodities and inputs
Hydrocarbons	Oil and gas
IDEX	International Defence Exhibition and Conference, the world's largest, held annually in Dubai
IPO	Initial public offer
IRI	Islamic Republic of Iran
KSA	Kingdom of Saudi Arabia
LNG	Liquefied natural gas
mbd	Million barrels per day, a measure of oil production or export volume
MW	Megawatt, a unit of 1 000 watts of electricity, commonly used to designate the size of power stations
National interest provisions	Australian Government agreement to act as insurer of last resort for payment for exports, usually bulk agricultural commodities, to nations with poor credit ratings
OPEC	Organisation of Petroleum Exporting Countries
PPP	Purchasing power parity: estimated by determining the number of units of a country's currency required in-country to buy a standard bundle of goods and services that US$1 would buy in the United States. This information is then used to adjust the country's US dollar per capita income to better reflect its actual purchasing power
SABIC	Saudi Basic Industries Company, Saudi Arabia's largest industrial group
STM	Simply transformed manufacture
TEU	Twenty foot equivalent unit, used to measure the volume of container traffic handled by a port
UAE	United Arab Emirates
Upstream	Industry term for the primary extraction of oil and gas
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

THE PERSIAN GULF REGION



Note: a Scale 1:21 000 000, Lambert Conformal Conic Projection, standard parallels 12'N and 38'

Source: University of Texas website, www.lib.utexas.edu/Libs/PCL/Map_collection/middle_east_and_asia/MiddleEast_ref802640_1999.jpg, accessed on 23 August 2000.

EXECUTIVE SUMMARY

Over the next decade, growing economic and population pressures should drive considerable reform and structural change in the economies of the Arabian Peninsula and Iran, called the Gulf economies in this report.[1] Recent and anticipated investment and trade reforms should boost opportunities for Australian business. However, the region's economic and business environment remains diverse and fluid.

This report should assist traders and investors accessing markets in Saudi Arabia, the United Arab Emirates, UAE, Iran, Bahrain, Qatar, Kuwait, Oman and Yemen by thoroughly analysing the region's current economic, trade and investment policies, recent and projected economic performance and the unfamiliar business environment, and by highlighting prospective sectoral opportunities for Australian business.

After oil was exploited commercially in the 1950s and oil prices rose in the 1970s, most Gulf economies developed rapidly. However, in the 1990s, slower growth, a desire to reduce exposure to volatile oil prices and increasing demographic pressures forced governments to reassess growth based only on oil revenue and state investment. Even the prosperous Gulf Cooperation Council, GCC, economies of Saudi Arabia, the UAE, Bahrain, Qatar, Kuwait and Oman, seek to diversify and develop other prospective sectors like gas, mining and services. Their strategies include liberalising trade and investment policies to encourage foreign participation.

Lacklustre growth typified Gulf economies during the 1990s. Regional real gross domestic product, GDP, growth rates ranged only from an annual average of 5.2 per cent in post-war Kuwait to 1.4 per cent in Saudi Arabia. Since Iran's 1979 revolution, the population has doubled, but real GDP has expanded at only 1.6 per cent per year due to inward looking economic policies, an eight year war with Iraq and political turmoil. Relatively oil-poor Yemen recently commenced economic reforms and reversed economic contraction after years of civil war, political upheaval and negative growth.

Throughout the Gulf economies, the need to create employment opportunities for rapidly growing populations is intensifying pressure to lift economic growth. The 1970s oil boom produced a baby boom, and oil wealth encourages strong inward migration. Two thirds of GCC economies' populations are under 25 years; 21 per cent are aged between 11 and 15 years. As oil sectors provide relatively few jobs for nationals, governments are encouraging new investment in service sectors able to provide appropriately paid jobs. To achieve this, young nationals require appropriate education and training; this expands opportunities for foreign educational service suppliers.

Pressure to diversify from oil is particularly intense in Dubai in the UAE, Qatar, Oman and Bahrain where oil reserves will last only another 10 to 15 years. Dubai already benefits from diversifying into transport, distribution, tourism, finance and other services; oil production now accounts for less than

1 In line with standard United Nations' practice, Australia officially uses 'the Persian Gulf'. Readers should note that where the term 'the Gulf' is used, it refers to the Persian Gulf.

8 per cent of its GDP. Even in the 1980s, Bahrain achieved similar success by developing into an offshore banking centre, producing aluminium and refining Saudi and Bahraini oil. Qatar is developing its extensive gas resources, while Oman is undertaking radical infrastructure reforms and expanding distribution and tourism sectors.

To diversify into non-oil sectors, Gulf economies increasingly are liberalising their trade and investment policies. The UAE, Kuwait, Qatar and Bahrain are World Trade Organization, WTO, members while Saudi Arabia, Oman and Yemen are undertaking reforms under their proposed accession programs. Saudi Arabia will liberalise its foreign investment regime so 100 per cent foreign owned companies can participate in many sectors, although international investor interest in this reform is constrained by continued lack of clarity about excluded sectors and lack of implementing regulations. Iran tentatively is opening oil, gas and petrochemical sectors to foreign participation through output ‘buy-back’ schemes, although most other sectors remain effectively closed to foreign direct investment, FDI. Several Gulf economies are opening education sectors to foreign providers and privatising infrastructure to overcome budgetary constraints.

Because the Gulf economies insufficiently expanded government revenue beyond oil proceeds, they ran budget deficits throughout the 1990s, averaging 7 per cent of GDP in 1999. With ready access to oil revenues, few GCC governments levy income or sales taxes, or plan to introduce them in the near future. However, even major oil producers like Saudi Arabia, the UAE, Iran and Kuwait, feel the pressure to diversify government revenue sources, because of the cap on oil revenues enforced by OPEC quotas and growing demand for government services. New revenue raising initiatives include higher user charges for power and water, and user contributions towards health and education services.

With populations, incomes and demand for new government services rapidly expanding, many regional governments also are encouraging private infrastructure provision. Between 2000 and 2006, meeting new Saudi, UAE, Iranian, Qatari, Omani and Kuwaiti electricity demand alone will cost US$40 billion. Oman has developed a coherent framework for private infrastructure supply, but Kuwait, the UAE, Saudi Arabia and Yemen seek private infrastructure providers.

AUSTRALIA-GULF TRADE AND INVESTMENT TRENDS

Australia’s trade relationship with the Gulf economies is well developed and growing rapidly. Australian investment is small but expanding rapidly with the burgeoning range of opportunities.

AUSTRALIAN EXPORTS TO GULF ECONOMIES

Between 1995 and 1999, Australia’s exports to the Gulf economies grew strongly at 19 per cent per year, 50 per cent higher than overall Australian export growth. Car exports boomed from nearly zero in 1995 to A$800 million in 1999. As a result, elaborately transformed manufactures, ETMs, now represent 34 per cent of Australian exports to the Gulf. Australia’s bulk commodity trade in wheat, sugar, frozen meat and alumina continues to flourish. However, in 1999, primary product exports represented 64 per cent of Australian exports to the Gulf, down from 94 per cent in 1990.

While cars account for 85 per cent of ETM exports, high oil prices in 2000 and 2001 will offer excellent opportunities to diversify ETM exports, particularly for telecommunication products, pharmaceutical and medicinal products now patent protection is improving, and fast ferries. Other key export opportunities include increasing:

- bulk and high value agricultural exports, as governments reduce costly subsidies and water supplies to inefficient local agriculture
- education exports, by attracting Gulf students to Australian institutions and providing in-country courses
- Gulf residents' tourism to Australia and services to Gulf tourism markets
- construction equipment, materials and service exports.

Australian Imports from Gulf Economies

Australia is a net hydrocarbons exporter, so its imports from Gulf economies are limited. Nevertheless, in 1999, Australia's imports from Gulf economies totalled A$1.3 billion, including A$894 million in petroleum products. Non-petroleum related manufactured imports grew from A$32 million in 1990 to A$177 million in 1999. However, the Gulf economies' manufacturing base is narrow, while the markets for niche products such as Persian carpets, musical instruments and dates are limited and suffer from inadequate trade promotion efforts.

Australia's Investment Opportunities

Australia's new investment in the Gulf economies is directed at the relatively open and business friendly UAE; in 1997, it had attracted 30 Australian companies but in 2000, this had increased to 70. This extra growth implies at least A$20 million in new investment. The largest Australian UAE operations include assembly and light manufacturing facilities (Clipsal and Lionweld Kennedy), a regional distribution centre (Boral Plasterboard), construction operations (Multiplex) and leisure sector investment (Greater Union).

Outside the UAE, most Australian investment interest is in oil and gas, with BHP Petroleum, Woodside Petroleum and smaller companies like Novus Petroleum all active. In addition, ANZ Investment Bank has a Bahrain based regional operation and three Australian companies have significant joint ventures in Saudi metal processing, health and construction sectors.

Gulf Investment in Australia

Data on the Gulf economies' investment in Australia are limited, but clearly Australia's share of their massive offshore investment is well below Australia's share of world GDP. Frequent and direct air links between Australia and the Gulf, with Emirates flights to Dubai and Gulf Air flights to Abu Dhabi and Bahrain, should increase investment in real estate, tourism, services and Australian financial products. The UAE's direct investment in Australian agriculture, horse breeding and real estate is considerable, but Australia's agricultural and resource sectors could attract more Gulf investment; in turn, this could generate new Australian export opportunities to the Gulf.

THE BUSINESS ENVIRONMENT

Understanding the Gulf region's religion, culture and business environment remains critical to doing business there. Important issues include appropriately using local agents, choosing local investment partners, understanding the role of chambers of commerce and managing the region's bureaucratic culture. Two important future business issues are the changing role of agents and influence of changing demographics on market demand.

Religion and Culture

Islam permeates Middle Eastern policy making and daily life far more than religion does in most western economies. For example, the Leader of the Revolution in Iran and conservative Islamic theologians in Saudi Arabia considerably influence law making and economic policy. Islam also guides patterns of food and drink consumption, clothing demand, financial sector products, attitudes to advertising, and other consumption and investment behaviour.

The distinction between Arab and Persian cultures, histories and languages also is important. Failing to recognise these differences, and particularly misidentifying Arabs and Persians, can cause offence. Similarly, using the incorrect term for 'the Gulf' can cause serious problems with partners, exports and contracts. Iranians refer to the 'Persian Gulf', while Arabs refer to the 'Arabian Gulf'. Officially, Australia, like most western countries, refers to the 'Persian Gulf'.

The Legal Environment

Governments tend to legislate business law, but even so, legal frameworks are significantly less developed than in western economies. Consequently, avoiding litigation is important to business success. Legal problems include complying with often complex and ambiguous foreign ownership laws, achieving intellectual property protection and terminating agency agreements. Consequently, thorough due diligence on potential partners and use of all available means of dispute resolution, such as negotiation or arbitration, if problems do arise, are essential. Where possible, providing for arbitration in Australia or third countries is desirable.

The Importance and Changing Role of Agents

Most Australian companies selling goods on the Arabian Peninsula initially use an agent for marketing and distribution. In Oman, Qatar, Kuwait and Bahrain, this often is a legal requirement. However, in the period to 2005, WTO requirements will increase the difficulty of reserving agency roles for nationals. In addition, e-commerce, rapid population growth and higher education levels among young nationals should ensure local agents and joint venture partners add more value and more actively contribute to joint businesses.

Demographics

The Gulf economies' young populations should maintain reform pressure and stimulate demand for education, music products, electronics, information technology and communications, snack foods, travel, housing and mortgage financing.

Non-nationals, from the Indian sub-continent, other Middle Eastern states and western economies are important in GCC workforces and market demand. Expatriates account for about 70 per cent of the population in the UAE, Qatar and Kuwait and 60 per cent in Bahrain, and are significant in most other Gulf economies. Non-nationals not only do all menial, dangerous and unskilled work, but fill many private sector skilled and managerial positions.

In recent years, most Gulf economies have introduced programs to localise skilled jobs to create employment for the oil boom-baby boomers entering the workforce. Saudi Arabia, the UAE, Qatar and Oman have formal quotas; however, Bahrain's initiative of establishing an Institution of Banking and Finance at Bahrain University to train Bahrainis (and other GCC nationals) to become very competitive financial sector employees appears more successful. Bahraini banks have 70 per cent local staff.

FOREIGN INVESTMENT

Due to their huge oil export receipts, GCC economies are traditionally capital exporters. Abundant capital and restrictive foreign investment regimes have made FDI a much less significant capital source for the Gulf economies than for East Asia, for example. However, efforts to strengthen growth, diversify economies and create employment are changing rapidly these restrictive policies.

Regional FDI Polices

Remaining constraints on inwards FDI to the Gulf economies include caps on foreign ownership outside the free trade zones, prohibitions on investing in many sectors (particularly oil), restrictions on foreign participation in key infrastructure, energy and manufacturing sectors, and imprecise regulatory frameworks. However, Qatar, Oman and Saudi Arabia lead reform efforts, and further opening of FDI regimes is likely in the short to medium term. Iran also is attracting growing interest in oil and gas buy-backs, and is legislating to provide security for foreign investment.

Investment Opportunities

Gas related projects and infrastructure are generating much private investment interest. Large scale foreign involvement is more prospective in the region's huge emerging gas industry than in oil, as regional expertise and vested interests in the gas sector are less developed. Successful completion of major gas pipelines, such as the proposed Dolphin project from Qatar to the UAE and Oman, will increase the competitiveness of energy intensive petrochemicals, aluminium smelting and steel production. The scale of investment and need for internationally competitive operations should make foreign investment more attractive than majority state ownership, the previous approach. Private infrastructure investment opportunities also should expand due to ongoing liberalisation and massive needs for telecommunications, roads, pipelines construction, railway construction, and electricity and water production and distribution services. Free trade zones also provide light manufacturing and distribution opportunities.

Free Trade Zones

The Gulf's leading free trade zone, Dubai's Jebel Ali, has over 600 international manufacturing, distribution, trading and processing companies, including Colgate Palmolive, Samsung and IBM, and a range of Australian companies. The UAE's other major free trade zone is Sharjah, home to Clipsal's Middle East and South Asian manufacturing operations, and Lufthansa's largest cargo hub after Frankfurt. Dubai also is developing a free trade 'Internet city' for technology, e-commerce and media.

Other important regional zones are at Aden in Yemen and Salahah in Oman; both feature large shipping and distribution investments. Iran's free and special economic zones, particularly Qeshm Island, Al Mahdi near Bandar Abbas and Abadan have considerable latent potential, particularly for heavy industry and petrochemicals, but Iran's failure hitherto to enact appropriate legislation guaranteeing investor security constrains this. Kuwait has established a free trade zone with world class infrastructure at Shuwaikh Port. Ultimately, Kuwait aims to make the entire country a free trade zone.

Foreign Investment Prospects

Significant structural changes underway in the Gulf economies should ensure foreign investors considerable future opportunities. Most governments recognise they cannot allow current high oil prices to reduce reform momentum; for example, unless oil prices remain above US$25 per barrel, only Kuwait could finance its new electricity infrastructure requirements without outside investment.

Service industries require intensive skilled labour, making investment liberalisation in the service sector critical. As Dubai's experience shows, sound economic policies and even a partially liberalised environment offers major growth and employment benefits.

TRADE

Oil dominates regional trade, accounting for up to 70 per cent of Gulf economies' exports. Oil also provides the feedstock for the Gulf region's growing petrochemical exports, which account for around half of non-oil merchandise exports, except in Bahrain and Iran. When oil prices fell below US$10 per barrel in 1998, import volumes declined markedly. In 2000, regional imports are forecast to surge to US$90 billion, and given the significant lag in importing, this strong trend should continue into 2001.

Imports

Because the Arabian Peninsula economies have relatively narrow and underdeveloped industrial bases compared to OECD economies, they import most manufactures, including consumer durables, particularly cars and capital goods. In Iran, with its diverse but relatively inefficient state owned industrial base, bulk foodstuffs and essential machinery dominate imports.

All Gulf economies are significant food importers. Most regional governments subsidise inefficient local agriculture, but fiscal and demographic pressures are likely to weaken these policies in the next decade. This should boost prospects for food exporters like Australia.

While significantly smaller as an import market than East Asia, the Gulf economies still are significant importers. In 1998, the largest regional economy, Saudi Arabia, imported US$28 billion of merchandise, followed by the UAE with US$24 billion, Iran with US$10 billion and Kuwait with US$7 billion. As the UAE is a re-export centre, this significantly inflates its imports. The fastest growing importers are Qatar, the UAE and Oman, while the fastest growing imports include dairy products (Saudi Arabia, the UAE and Bahrain), meat (Saudi Arabia and the UAE) and transport equipment (Saudi Arabia, the UAE, Kuwait and Yemen).

Trading Partners

The Gulf economies dominate world oil trade, but intra-regional trade is relatively limited. Instead, the region's main trading partners are the United States, Japan, the UK, Germany, Italy, Republic of Korea and France. Australia receives only 0.7 per cent of the Gulf economies' exports (mainly crude oil) but supplies over 2 per cent of their imports, well above its 1 per cent share of international trade.

Re-exporting Centres

Dubai is the Gulf region's premier entrepot, with re-exports doubling in value to US$11 billion per year between 1990 and 1998. Dubai's twin ports of Jebel Ali and Port Rashid handle 40 per cent of all Gulf container traffic.

Since 1997, governments and foreign companies have formed joint ventures to build large ports and container terminals at Salalah in Oman and Aden in Yemen. These strategically located ports, close to European and Asian sea lanes, allow ships to bypass the Strait of Hormuz, thereby saving time, fuel and insurance premiums. Nonetheless, for the foreseeable future, Dubai is likely to retain its premier re-export role due in part to its large internal market and its ports' efficiency.

Effect of WTO Accession

WTO accession requirements are driving considerable trade and investment reform in Gulf economies. Oman's WTO accession is imminent; Saudi Arabia wishes to accede in 2000 but this now appears unlikely; and Yemen's application is nascent. Iran's application for WTO membership has not been scheduled for consideration due to US opposition.

When Saudi accession occurs, it should drive regional trade growth and improve access for Australian dairy, car and grain exports. Increased transparency and intellectual property protection, and equal tax treatment for domestic and foreign companies also should result. Oman's accession progressively will open the telecommunications sector and liberalise foreign investment regulations.

Trade Barriers

Tariff barriers, except in Iran, are generally low and not a major constraint on trade. UAE and Kuwaiti tariffs average 3.5 per cent, while Saudi tariffs average 12.5 per cent. About 75 per cent of UAE imports enter duty free, largely due to imports into free trade zones. Iran has tariffs of between 30 and 50 per cent, bans many imports and awards exclusive importing rights to ministries, religious foundations and individuals. Rationing of scarce foreign exchange further constrains Iranian trade.

GCC members recently agreed that by 2005, they would adopt a common range of external tariffs from 5.5 to 7.5 per cent. Implementing this common external tariff is complicated by the need for substantial falls in Saudi tariffs and for rises in UAE and Kuwaiti tariffs. However, the need to have a common external tariff before negotiating a free trade agreement with the European Union should maintain momentum.

Implications

Slower growth, demographic pressures and the benefits of globalisation are convincing many Gulf governments to diversify their economies and open them further to foreign trade and investment.

High oil prices, the competitive Australian dollar and gradually opening Gulf economies generate strong Australian business prospects. Major business opportunities include expanding traditional agricultural and mineral exports, particularly wheat, sugar and alumina, and developing new markets for fresh and processed food, a wide range of ETMs, particularly cars, and tourism, education, infrastructure, construction and business services.

The Australian Government has an important role in raising Australia's trade and investment profile in the Gulf economies, by encouraging high level delegations and adequately resourcing trade and diplomatic posts. It also can further promote Australian educational exports and advertise Australia as a tourist and investment destination.

Prospects

Over the coming decade, Australia's natural complementarity with the Gulf economies and the region's ongoing reforms should deepen trade and investment opportunities for Australian business. However, the Gulf markets are very competitive and cultural differences are marked, so Australian businesses should devote appropriate energy and resources to market research and development to access this highly prospective region.

COUNTRY SUMMARIES

KINGDOM OF SAUDI ARABIA

Population	21 million; 71 per cent Saudi nationals
Form of government	Unitary state, absolute monarchy
Head of State and Head of Government	Custodian of the Two Holy Mosques, King Fahd bin Abdul-Aziz al Saud
Cabinet	Council of Ministers, appointed by and responsible to the King
Elections	None
Legislative branch	Consultative Council with 60 members appointed by the King for four year terms with advisory functions only

The modern Kingdom of Saudi Arabia was formed in 1932, following reconquest and reunification, and has been ruled by the Saud family since. The current ruler, King Fahd, is aged, and the senior princes (especially his half brother, Crown Prince Abdullah) manage the day-to-day affairs of government. While the Kingdom is an absolute monarchy, the ruling family governs by consensus, taking careful account of public sentiment.

Oil was discovered in 1938 and commercial exploitation began after World War II. Saudi Arabia has the world's largest oil reserves, 261.5 billion barrels, or 25 per cent of the world's total. At current production rates, proven reserves will last for 80 years. Oil revenues allowed successive governments to develop the Kingdom's infrastructure, agriculture and industry. However, from 1997 to 1999, low oil prices curtailed state led industrial development and, combined with high population growth and concerns about unemployment, stimulated recent proposals for significant liberalisation in foreign investment laws.

Since 1980, Saudi economic growth has failed to keep pace with population growth, resulting in a dramatic fall in per capita incomes in constant 2000 dollars from US$28 600 in 1981 to $6 300 in 2000. The current annual rate of population growth is 3.5 per cent per year, with 42 per cent of the population aged under 15. Unemployment is believed to be between 28 and 35 per cent for adult men.

The Saudi Government ran large budget deficits throughout the 1990s (6.3 per cent of GDP in 1999) to finance infrastructure, agricultural, industrial and defence development. Consequently, the Government has very high domestic debt levels. These reached 116 per cent of GDP in 1998 when oil prices fell below US$10 per barrel.

---

[1] Unless otherwise stated, data for these country briefs has been drawn from Datastream, 2000; Central Intelligence Agency, 1999; The Economist Intelligence Unit's, *EIU's Country Profiles*; and Business Monitor International's *Middle East Monitor, The Gulf.*

Economic Summary

	1995	1999
Total GDP (US$ billion)	128	186
Real GDP growth (per cent)	0.5	1.6
GDP per head (US$)	7 003	6 980
Inflation (per cent)	0.5	-1.6
Foreign exchange reserves (US$ billion)	8.6	17.0
Oil production (million barrels per day)	8.2 (capacity 10 mbd)	7.8
Current account balance (US$ billion)	-5.3	-3.8
Merchandise exports (US$ billion)	50.0	48.5
Merchandise imports (US$ billion)	25.6	25.7

Source: Datastream, 2000; and Business Monitor International, 2000b.

Changes to the foreign investment law proposed in April 2000 will allow foreign investors to own 100 per cent of industrial projects and land associated with direct investments, and also access tax concessions. However, in mid 2000, continued uncertainty about a range of important details, including sectors where FDI will remain prohibited, constrain international investor interest. The Government is opening upstream gas and petrochemicals to foreign investment. However, the state oil firm, Saudi ARAMCO, retains its monopoly over upstream oil production. Other prospective reforms include redrawing the tax law, improving stock market regulation, redrafting labour laws and the mining code, and privatising the telecommunications, electricity, petrochemicals and airline industries. Success in Saudi Arabia's bid for WTO membership will add to reform impetus.

Most non-oil industries, chiefly petrochemicals, depend on oil and gas as feedstock. The Saudi Basic Industries Corporation, SABIC, is the Kingdom's largest industrial group, and dominates non-oil manufacturing. Ownership is split between the government (70 per cent) and public (30 per cent). SABIC is slated for full privatisation, although neither a date nor method has been decided.

UNITED ARAB EMIRATES, UAE

Population	2 579 000; 30 per cent Emirati nationals
Form of state	Federation of seven emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Ras Al-Khaimah, Ajman, Fujairah and Umm Al-Quwain
Head of state	HH Sheikh Zayed bin Sultan Al-Nahayyan, President of the United Arab Emirates
Head of government	Vice President and Prime Minister, Sheikh Maktoum bin Rashid Al Maktoum, Ruler of Dubai
Cabinet	Council of Ministers appointed by the President
Elections	President and Vice President elected by the Supreme Council of Rulers, formed by the hereditary rulers of the seven emirates
Legislative branch	Federal National Council, appointed by rulers of the seven emirates, operates in a consulting capacity only

The United Arab Emirates, UAE, formerly known as the Trucial States, gained independence from Britain in 1971; before then, individual emirates were British protectorates. The UAE has close defence links with other Gulf Cooperation Council, GCC, states and the United States, Britain and France. It has territorial disputes with Iran over sovereignty of the Abu Musa islands and the Greater and Lesser Tunbs in the Gulf between Iran and the UAE.

Only 20 per cent of the UAE's population are nationals; the remainder are expatriates from South Asia (64 per cent), other Middle Eastern countries (15 per cent), and western countries (1 per cent). Skilled and unskilled labour shortages among UAE nationals, relatively high wages and no income tax generate expatriate inflows.

The UAE has 9.7 per cent of the world's crude oil reserves and 4.1 per cent of its natural gas reserves. Abu Dhabi holds 94 per cent of the UAE's oil reserves, with more than 100 years' production at current levels. Abu Dhabi also provides 80 per cent of the UAE's budget and generates 58 per cent of its GDP.

Dubai's oil output is declining rapidly , with resserves likely to be exhausted by 2015. Dubai accounts for 26 per cent of UAE GDP and is a regional trade centre, with foreign trade more than double its US$13 billion GDP. The Dubai Government aggressively promotes the emirate as a regional commercial services and tourism hub, and developed the Gulf's largest free trade zone and port at Jebel Ali. Together with the nearby Port Rashid, these ports processed 2.8 million twenty foot equivalent units, TEUs, of containers in 1998, the world's eleventh largest port throughput. Dubai benefited from business relocation from Kuwait and Bahrain, during and after the Gulf War.

Economic Summary

	1995	1999
Total GDP (US$ billion)	42.8	51.1
Real GDP growth (per cent)	8.1	2.5
GDP per head (US$)	18 500	17 900
Inflation (per cent)	4.4	4.2
Foreign exchange reserves (US$ billion)	7.5	10.7
Oil production (million barrels per day)	2.2	2.1
Total foreign debt (per cent of GDP)	22.2	25.2
Current account balance (US$ billion)	4.3	4.1
Merchandise exports (US$ billion)	29.2	33.8
Merchandise imports (US$ billion)	23.4	29.9

Source: Datastream, 2000; and Business Monitor International, 2000b.

Sharjah produces 10 per cent of UAE GDP, and the other smaller emirates produce between 0.5 and 2.5 per cent each. They have very modest oil and gas reserves and production, but are attempting to develop their trading and tourism sectors.

The UAE joined the WTO in 1995. Currently, tariffs average 3.5 per cent and 75 per cent of goods enter duty free. However, by 2005, the UAE is committed to introducing a unified GCC external tariff of from 5.5 to 7.5 per cent on most goods, which would represent a considerable increase in tariff barriers. Currently, the UAE is implementing a series of economic reforms, including improving business laws and intellectual property protection, establishing a formal stock exchange, and privatising and opening previously closed sectors to foreign direct investment, particularly in the utilities sector.[2]

The UAE is a rapidly growing transhipment point for Europe-Asia cargo, and for air-sea cargo combinations. Dubai's large international airport hubs the flights of its successful Emirates Airline. Lufthansa has its largest cargo hub outside Frankfurt in Sharjah. Newly opened airport free trade zones in Dubai and Sharjah, the continued growth of Jebel Ali and other traditional free trade zones, and the UAE's growing role as a regional headquarters, shopping and distribution centre, should see air and sea transport hub activities continue to expand.

Led by Dubai, tourism is a significant growth industry. Visitor arrivals exceeded 3 million in 1999, representing growth of 35 per cent over 1998. Growth in new hotel rooms at 30 per cent per year outstrips all major European and Asian tourist destinations. Major markets include other Gulf economies, the former Soviet Union and the Indian sub-continent.

[2] Due to intellectual property law improvements, the UAE no longer is on the US intellectual property watch list. It also has improved substantially business law transparency. The Dubai Financial Market, the first trading floor of the UAE stock exchange started trading in March 2000. A further exchange is to be opened in Abu Dhabi.

ISLAMIC REPUBLIC OF IRAN

Population	65 million (including up to 4 million illegal Iraqi and Afghani refugees)
Form of state	Islamic republic
Chief of state	Leader of the Islamic Revolution and Supreme Jurisprudent, Ayatollah Seyed Ali Khamenei
Head of government	President HE Hojateslam Seyed Mohamad Khatami
Cabinet	Appointed by the President, approved by Majles (legislature)
Elections	Presidential, Majles and municipal elections are held, with universal suffrage from age 15. Also Assembly of Experts elections select the body which chooses Leader of the Islamic Revolution
Legislative branch	Majles, or the Islamic Consultative Assembly, is similar to a parliament. Universal election of candidates is to a unicameral chamber; candidates are vetted by the Council of Guardians

The Islamic Republic of Iran was founded in 1979 following a popular revolution led from abroad by Ayatollah Ruhollah Khomeini. Revolutionary upheaval and an eight year war with Iraq dominated the 1980s. The death of Ayatollah Khomeini in 1988 saw Ayatollah Ali Khamenei, formerly the President, take up the newly created position of Supreme Leader. Following peace with Iraq, Hashemi Rafsanjani became President, and between 1988 and 1997, undertook a state funded reconstruction program focusing on rebuilding and upgrading infrastructure.

In 1997, reformist cleric Seyed Mohammad Khatami was elected President. He embarked on a political and social reform program opposed by conservatives. The President introduced an economic recovery program in 1998, designed to reduce the state's economic role through privatisation, deregulation and anti-trust actions, promote non-oil industries and increase transparency of economic and commercial regulations. However, until April 2000, lack of a supportive parliamentary majority blocked implementation of these reforms. With the next presidential election due in 2001, early passage of the program's key elements will be the defining economic test for the remainder of the President's term.

Key Economic Challenges

Iran's population is young, with 70 per cent aged under 25. Real economic growth averaged only 2 per cent between 1995 and 1999 compared to labour force growth of 3.5 per cent; this drove up unemployment to over 30 per cent. These demographic forces increase reform pressure. Annual economic growth above 5 per cent is needed to keep pace with the 900 000 new labour force entrants each year.

In 1998 and 1999, low oil prices triggered foreign debt servicing difficulties. Nonetheless, at less than 20 per cent of GDP, the foreign debt level is modest and Iran should be largely debt free by 2003.

Economic Summary

	1995	1999
Total GDP (US$ billion)	59.6	60.5
Real GDP growth (per cent)	2.8	2
GDP per head (US$)	872	816
Inflation (per cent)	49.7	21.3
Foreign exchange reserves (US$ billion)	6.4	4.2
Oil production (million barrels per day)	3.6	3.5
Total foreign debt (per cent of GDP)	36.7	22.4
Current account balance (US$ billion)	3.4	5.0
Merchandise exports (US$ billion)	18.4	16.0
Merchandise imports (US$ billion)	12.8	12.2

Source: Datastream, 2000; Business Monitor International, 2000b.

Iran has a large, diverse state run economy with extensive consumer subsidies. Oil revenues account for 18 per cent of GDP and provide 78 per cent of export revenues. The Central Bank of Iran gradually is unifying several overvalued exchange rates to a single market determined rate; continued progress here should boost non-oil exports. The overvalued exchange rate has eroded non-oil exports, and dependence on oil export revenue makes import volumes subject to oil price fluctuations. As a result of shortages, the Government rations foreign exchange to service foreign debt and pay for essential imports, such as foodstuffs.

Key potential sectors for foreign investment include oil and gas, mining, mineral processing and petrochemicals. All these now are open to buy-back type investments whereby foreign investors undertake construction and financing work with expenses repaid out of project revenue. However, lack of a clear regulatory and constitutional framework, and the United States Iran Libya Sanctions Act constrain foreign investment.[3] Parliamentary approval in August 2000 of new legislation reforming limits on foreign equity levels, profit repatriation and protection against nationalisation have improved significantly foreign investment prospects.

Iran is increasing its integration with the global economy. In May 2000, the World Bank approved its first new loans for Iran since 1993. In addition, Iran has applications pending for WTO accession and access to IMF financing.

[3] The Iran Libya Sanctions Act, ILSA, prohibits investment by US companies, or companies with business in the United States, or US nationals working for foreign companies, from investing more than US$20 million in Iran's petroleum sector.

BAHRAIN

Population	643 000 (1997); 61 per cent Bahraini nationals
Form of state	Traditional monarchy
Head of state	HH Sheikh Hamad bin Isa al-Khalifa, Amir of the State of Bahrain
Head of government	Prime Minister Khalifa bin Salman Al Khalifa
Cabinet	Council of Ministers appointed by the Prime Minister and monarch
Elections	None. Monarch is hereditary; monarch appoints the Prime Minister
Legislative branch	Unicameral National Assembly dissolved in 1975; Amir and Cabinet assumed legislative powers. An advisory council was appointed in 1992

Bahrain became a British protectorate in 1861. It developed significantly following the discovery of oil in the 1930s and became fully independent in 1971. In 1999, Sheik Hamad became Amir. He released political prisoners, helping to reduce sporadic political turmoil. However, to fully resolve political dissent, the Government may need to address demands for greater political freedom and restore the National Assembly.

Bahrain has a well respected central bank, the Bahrain Monetary Agency, and transparent legal institutions. With Oman, it is the only GCC state with a large indigenous working class. By regional standards, Bahrain's economy is relatively diversified; it is a significant regional tourism and financial centre and major aluminium producer.[4] Bahrain's own oil production is relatively small at 40 000 barrels per day, with reserves to last until 2015. Saudi crude refined in Bahrain therefore accounts for 80 per cent of Bahrain's petroleum exports.

Economic Summary

	1995	1999
Total GDP (US$ billion)	5.8	6.8
Real GDP growth (per cent)	4.0	2.5
GDP per capita (US$)	10 100	10 300
Inflation (per cent)	2.7	0.5
Foreign exchange reserves (US$ billion)	1.3	1.4
Oil production (million barrels per day)	0.14	0.18
Total foreign debt (per cent of GDP)	48.9	39.1
Current account balance (US$ billion)	0.2	0.4
Merchandise exports (US$ billion)	4.1	4.1
Merchandise imports (US$ billion)	3.7	3.5

Source: Datastream, 2000; and Business Monitor International 2000b.

4 Proposed expansion of capacity by the Aluminium Company of Bahrain, would make it the second largest aluminium smelter in the world.

KUWAIT

Population	2 271 000 (1998); 32 per cent Kuwait nationals
Form of state	Nominal constitutional monarchy
Head of state	HH Sheikh Jaber al Ahmad, Amir of the State of Kuwait
Head of government	HH Sheikh Saad al-Abdullah al Salem Al Sabah, Prime Minister and Crown Prince
Cabinet	Council of Ministers appointed by the Prime Minister and approved by the monarch
Elections	Legislative elections for the National Assembly, with male suffrage
Legislative branch	A unicameral national assembly, the Majles al-Umma, has 50 seats

Kuwait became an autonomous British protectorate in 1899. Despite affirming Kuwait's borders a number of times, Iraq invaded and occupied Kuwait in 1990. In 1991, following widespread Iraqi destruction and sabotage, the US-led United Nations forces ejected Iraq in Operation Desert Storm.

Kuwait has around 10 per cent of the world's oil reserves and significant excess production capacity. Petroleum accounts for 40 per cent of GDP, 89 per cent of export revenues and 78 per cent of government revenues. Between 1991 and 1993, Kuwait experienced rapid growth driven by reconstruction; after that, real growth returned to 2 per cent per year until 1998. In January 1999, the Government began a reform program designed to reduce subsidies and privatise health care, telecommunications and utilities. It also seeks to liberalise foreign direct investment rules, allow full foreign ownership of Kuwaiti projects and find mechanisms to allow foreign oil companies to operate oil fields in Northern Kuwait. However, considerable resistance in the National Assembly to these reforms, means reform is slower than in some other GCC economies.

Economic Summary

	1995	1999
Total GDP (US$ billion)	26.6	30.4
Real GDP growth (per cent)	1	0.9
GDP per head (US$)	14 753	14 500
Inflation (per cent)	2.7	1.3
Oil production (million barrels per day)	2.0	1.9
Total foreign debt (per cent of GDP)	37.6	29.2
Current account balance (US$ billion)	5.0	6.6
Merchandise exports (US$ billion)	12.8	12.2
Merchandise imports (US$ billion)	7.8	6.6

Source: Datastream 2000; and Business Monitor International, 2000b.

SULTANATE OF OMAN

Population	2.29 million (1997); 73 per cent Omani
Form of state	Monarchy
Head of state	HM Sultan Qaboos bin Said al Said
Head of government	HM Sultan Qaboos bin Said al Said
Cabinet	Appointed by the Sultan
Elections	Limited suffrage (150 000), chosen by the Sultan to vote in elections
Legislative branch	Majles is a bicameral assembly but its power is limited to proposing legislation, and it largely is advisory in nature

Oman has an ancient history as a commercial centre and occupies the choke point of the Strait of Hormuz, facing Iran, through which two thirds of the world's oil trade passes. Oman was largely closed to the outside world and undeveloped until Sultan Qaboos acceded in 1970. He used oil revenues to provide basic infrastructure and services. In the 1990s, his efforts focused on implementing structural reform and increasing the private sector's role, particularly in utilities provision.

Economic Summary

	1995	1999
Total GDP (US$ billion)	13.8	15.6
Real GDP growth (per cent)	4.8	1.6
GDP per head (US$)	6 480	6 080
Inflation (per cent)	-1.3	0.8
Oil production (million barrels per day)	0.86	0.89
Total foreign debt (per cent of GDP)	23.0	29.5
Current account balance (US$ billion)	-0.8	-0.9
Merchandise exports (US$ billion)	6.1	7.23
Merchandise imports (US$ billion)	4.3	4.7

Source: Datastream, 2000; and Business Monitor International, 2000a.

In 1994, Oman offered the Gulf's first build, operate, transfer project, BOT, the Manah power station; currently, it is extending BOT type arrangements to other infrastructure areas, and privatising ports telecommunications, airports, utilities, banking, insurance and power generation.[5] Further, it is developing a strong regulatory framework in the electricity sector, allowing competition between generators.

Oman is diversifying into the gas and services sectors. Liquefied natural gas, LNG, exports began in April 2000, following a US$2.5 billion investment. Tourism facilities also are being upgraded rapidly, and new hotel investment eagerly sought, although occupancy currently is low.

[5] The Government is in the final stages of privatising the Seeb International Airport in the capital, Muscat, and actively seeking independent power project, IPP, proposals from foreign electricity generators. It also seeks to float part of the state telephone company on the Muscat Securities Market.

QATAR

Population	560 000; 29 per cent Qatari
Form of state	Monarchy
Head of state	HH Sheikh Hamad bin Khalifa Al-Thani, Amir of the State of Qatar
Head of government	HH Abdullah bin Khalifa al Thani, Prime Minister (brother of the Amir)
Cabinet	Council of Ministers appointed by the Crown Prince
Elections	Limited universal suffrage (municipal elections only); however, the Crown Prince, who deposed his father in a bloodless coup in 1995, intends to gradually transform Qatar into a constitutional monarchy
Legislative branch	Majles is a unicameral advisory council, with 35 seats and members appointed by the monarch

Qatar is the smallest Gulf country. In 1916, it became a British protectorate, and in 1968, it contemplated joining the UAE following British withdrawal. In 1971, Qatar declared independence and in 1995, the modernising Sheik Hamad bin Khalifa Al-Thani became Emir. The Emir has ended press censorship, and set up the Middle East's most outspoken television channel. He promises to form a parliament and institute municipal elections with universal suffrage.

Economic Summary

	1995	1999
Total GDP (US$ billion)	7.5	12.9
Real GDP growth (per cent)	1.6	2.5
GDP per head (US$)	13 664	23 500
Inflation (per cent)	3.0	2.0
Foreign exchange reserves (US$ billion)	1.5	1.3
Oil production (million barrels per day)	0.45	0.63
Total foreign debt (per cent of GDP)	59.9	94.4
Current account balance (US$ billion)	-2.3	-0.6
Merchandise exports (US$ billion)	3.1	5.0
Merchandise imports (US$ billion)	3.3	3.5

Source: Datastream, 2000; and Business Monitor International, 2000a.

Oil and gas dominate Qatar's economy. Qatar shares the world's largest gas field with Iran, and has spent US$25 billion since 1987 on an investment program to develop this gas field and associated downstream industries. LNG sales are set to rise from 5.7 million tonnes in 1999 to 18.3 million tonnes in 2003, with the LNG sector's share in GDP projected to rise from 8 per cent in 1998 to 18 per cent in 2003 (Fawzi Al-Khatib and Tarik Al-Malki, 2000).

YEMEN

Population	17.1 million
Form of state	Republic
Head of State	HH President Lieutenant General Ali Abdullah Saleh
Head of government	Prime Minister Dr Abd al-Karim Ali al Aryani
Cabinet	Council of Ministers appointed by the President on the Prime Minister's advice
Elections	Direct popular vote
Legislative branch	Unicameral 301 seat House of Representatives elected by popular vote

Modern Yemen resulted from the amalgamation of the former People's Democratic Republic of Yemen, PDRY, and the Yemen Arab Republic, YAR, in 1990. Before this, the two countries had fought a number of wars. Civil war erupted in 1994, following attempted secession by the south, which ended with the capture of Aden, and arrest of former PDRY leaders, thereby confirming unification.

Economic Summary

	1995	1999
Total GDP (US$ billion)	3.7	4.7
Real GDP growth (per cent)	8.6	2.8
GDP per head (US$)	239	265
Inflation (per cent)	56.3	7.9
Oil production (million barrels per day)	0.37	0.41
Total foreign debt (per cent of GNP)	169	94
Current account balance (US$ million)	183	326
Merchandise exports (US$ billion)	1.9	2.5
Merchandise imports (US$ billion)	2.6	3.0

Source: Datastream, 2000.

Yemen is the poorest Gulf economy, but grew strongly in the mid 1990s when oil production began. It is undertaking IMF-sponsored reforms to reduce subsidies, quell inflation, improve the Government's fiscal position and encourage investment. Reflecting its strong economic reform record, the IMF extended refinancing of US$512 million between 1997 and 2000, which with rising aid inflows and debt relief via the Paris Club, allows Yemen to meet its external obligations.

The port of Aden is undergoing large scale redevelopment, under a 20 year management contract with the Port of Singapore Authority, which holds 60 per cent equity. The port should capture significant Europe-Asia container traffic, as it avoids the detour into the Persian Gulf.

REFERENCES

Data for tables in the preceding section draws on several sources. The East Asia Analytical Unit has made every effort to present consistent data.

British Bank of the Middle East, 1999, *'Sultanate of Oman'*, Business Profile Series, Group Public Affairs, Hong Kong and Shanghai Banking Corporation, Hong Kong.

Business Monitor International, 2000a, 'The Gulf', *Middle East Monitor*, July.

___ 2000b, 'The Gulf', *Middle East Monitor*, August.

Central Intelligence Agency, 1999, 'World Factbook', www.cia.gov/cia/publications/factbook/, accessed on 3 July 2000.

Datastream, 2000, Information on the Datastream product is available on www.primark.com.

Economist Intelligence Unit, 1999a, *Oman 1999-2000 Country Profile*, EIU, London.

___ 1999b, *Iran 1999-2000 Country Profile*, EIU, London.

___ 1999c*, Bahrain* and *Qatar 1999-2000 Country Profile*, EIU, London.

___ 1999d, *Saudi Arabia 1999-2000 Country Profile*, EIU, London.

___ 1999e, *Yemen 1999-2000 Country Profile*, EIU, London.

___ 1999f, *United Arab Emirates 1999-2000 Country Profile*, EIU, London.

___ 1999g, *Kuwait 1999-2000 Country Profile*, London.

Fawzi Al-Khatib and Tarik Al-Malki, 2000, 'Clarifying the Region's Strategy for Economic and Structural Reform', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

International Energy Agency, 2000, *Oil Market Report,* www.iea.org, accessed on 3 July 2000.

US Department of State, Bureau of Economic and Business Affairs, 2000, *Country Commercial Guides,* Saudi Arabia, United Arab Emirates, Oman, Bahrain, Kuwait, Qatar and Yemen; www.state.gov/www/about_state/business/com_guides/, accessed on 3 July, 2000.

US Energy Information Administration, 2000, *Country Analysis Briefs*, www.eia.doe.gov/emeu/cabs/contents, accessed on 3 July 2000.

ECONOMIC PROSPECTS

KEY POINTS

- **Saudi Arabia and Iran are the Gulf region's largest economies, followed by the United Arab Emirates, UAE, which has the highest per capita income and growth.**

- **In most Gulf economies, economic growth is lower than workforce growth. Other major reform drivers are the desire to diversify out of oil, fiscal pressures and declining oil reserves in Oman, Bahrain, Qatar and Dubai in the UAE.**

- **Despite modest economic growth over the 1990s, these reform pressures will create new opportunities for foreign firms; fiscal pressures will increase the importance of private finance and privately provided infrastructure, while the drive to diversify will open new opportunities in gas, heavy industry and service sectors. Efforts to boost the employment of Gulf nationals will increase the need for education and skills training.**

- **Current high oil prices could threaten reform momentum; however, most Gulf Governments recognise the inevitability of volatile oil prices and remain committed to reform.**

Since the first oil shock in 1973, oil wealth has funded rapid growth in the Arabian Peninsula and Iranian economies, the region called the Gulf economies throughout this report[1]. In the 1990s, lower and volatile oil prices, and failure to open economies and diversify from oil moderated Gulf economies' growth performance. However, now the young, rapidly growing populations and massive infrastructure needs of the major oil producers, Saudi Arabia, Iran, the United Arab Emirates, UAE, and Kuwait, are generating strong pressures for economic reform.

Throughout the region, political leaders appear willing to respond to these challenges. Hence, in the 2000s, these governments are likely to seek to intensify diversification efforts, open their trade and investment regimes, and reduce their pervasive economic role, including by privatising infrastructure and industry. These reforms should help stimulate more balanced and robust growth, reduce vulnerability to swings in international oil prices, and expand business opportunities for foreign traders and investors.

Young, rapidly growing populations are creating significant pressures to lift economic growth and diversify economic activity. As well as providing a huge workforce, they also create a strong demand for education, health services and infrastructure like roads, water supply and electricity, which the state traditionally provides in Gulf economies. Demand for new services imposes fiscal pressures on Gulf governments, especially as many run significant deficits. This demand creates a major incentive to increase private sector involvement in infrastructure provision.

In 2000 and 2001, high oil prices will boost government and consumer expenditure, and lift import growth. While high oil prices could reduce short term economic reform pressures, most governments recognise oil prices are volatile. Their long term commitment to reform should remain firm because these governments need to deliver rising prosperity.

Australia's longstanding trade relationship with the Gulf economies is built on economic complementarity and Australia's competitiveness as a reliable supplier of high quality bulk agricultural commodities. In the 1990s, this relationship broadened as major new exports, including cars and alumina, emerged. As economic reforms and diversification continue, Australia's opportunities to expand and broaden trade and investment links with the Gulf economies should continue to grow.

HISTORY

Advanced civilisations date back at least 4 500 years in the Gulf, although many states are relatively recent. Modern Saudi Arabia, Kuwait, Qatar, Bahrain, and Yemen all were formed in the eighteenth or nineteenth centuries from Arabian Peninsula cities and nomadic tribes, while Oman and Iran are the remainder of once large empires.

[1] In line with standard United Nations' practice, Australia officially uses 'the Persian Gulf'. Readers should note that where the term 'the Gulf' is used, it refers to the Persian Gulf.

The Ottoman Empire exerted considerable influence over the Arabian Peninsula, present day Iraq, and parts of Iran from the sixteenth to the nineteenth centuries. During the second half of the nineteenth century, Ottoman influence in the Arabian Peninsula gradually dissipated under pressure from local tribes in the interior, and as the Gulf and Peninsula coast came under British naval domination. Protectorate arrangements with local Arab rulers continued until the British withdrew in 1968.

The British defined many borders in the nineteenth century. Currently, many of these are contested; no defined borders separate parts of the UAE and Oman, Saudi Arabia and Yemen, and Kuwait and Saudi Arabia. However, progress in delineating these borders is being made. Iran had periods of British, Soviet and US influence during the twentieth century. The Shah's monarchy was overthrown by the 1979 Islamic Revolution.

Before widespread commercial exploitation of oil began in the 1950s, many smaller Arabian Peninsula economies were underdeveloped, with mainly nomadic populations. When world oil prices jumped in 1973, living standards quickly rose to first world levels, and urbanisation was rapid. Post oil-shock prosperity rapidly expanded the population with a baby boom and major inflows of contract labour for skilled and unskilled jobs.

Since the 1970s oil price rises, the 1980-88 Iran-Iraq war, Iraq's 1990-91 invasion of and subsequent ejection from Kuwait, and significant tensions between Iran and neighbouring Arab states have dominated Gulf history. By 2000, relations between Iran and Saudi Arabia had improved gradually, significantly reducing regional tensions. The US Fifth Fleet and British forces are based in Bahrain, and most Arab states in the area recognise that these forces improve regional security. The main exception, Iraq, remains subject to the United Nations' blockade initiated in 1991 in the aftermath of Operation Desert Storm, and is not considered in this report.

REGIONAL ECONOMIC PERFORMANCE

The Gulf economies' size, income levels and growth performance vary considerably depending on their oil production, human resources, economic openness and success in diversification.

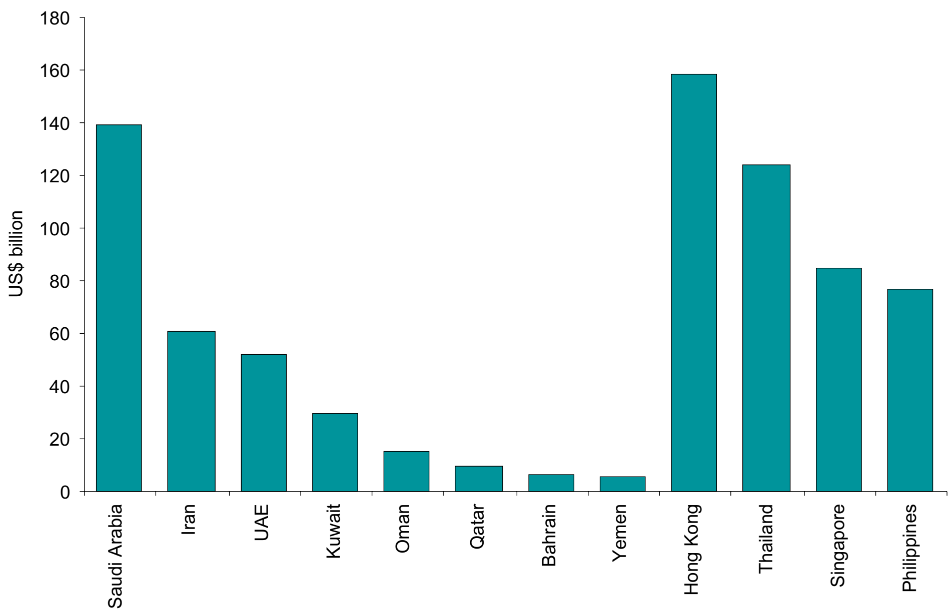
Market Size

Only Iran (with 65 million people) and Saudi Arabia (with 21 million people) have reasonably large populations and gross domestic products, GDPs; other Gulf economies are relatively small (Figure 1.1). Saudi Arabia is the only Gulf economy bigger than Singapore or the Philippines.

Figure 1.1

Saudi Arabia Is Region's Largest Economy

Nominal Gross Domestic Product, 1999



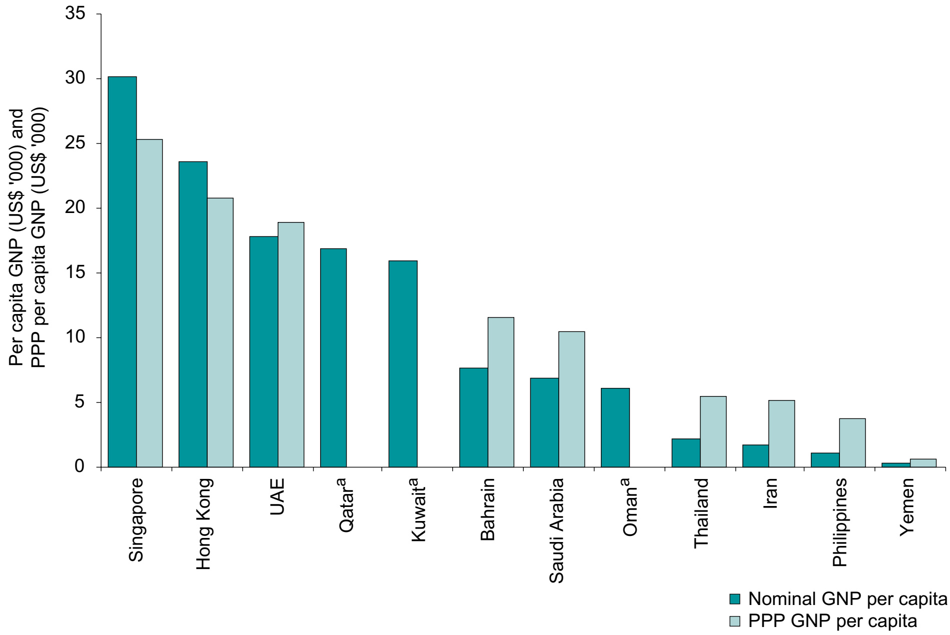
Note: Figures for Saudi Arabia, Iran, Kuwait, Oman, Qatar, Bahrain, Yemen and the UAE are based on estimates by Business Monitor International, 2000a. Figures for Asian economies come from CEIC, 2000.

Source: Business Monitor International, 2000a; and CEIC, 2000.

Figure 1.2

Purchasing Power Highest in the UAE and Qatar

Nominal Gross National Product per Capita and PPP Gross National Product per Capita, 1998



Note: a PPP GNP per capita data are not available for these economies.

b GNP is the value of the final output of goods and services produced by residents of an economy plus net primary income from non-resident sources.

c PPP is estimated by determining the number of units of a country's currency required in country to buy a standard bundle of goods and services that US$1 would buy in the United States, and using this information to adjust the country's US dollar per capita income to better reflect its actual purchasing power.

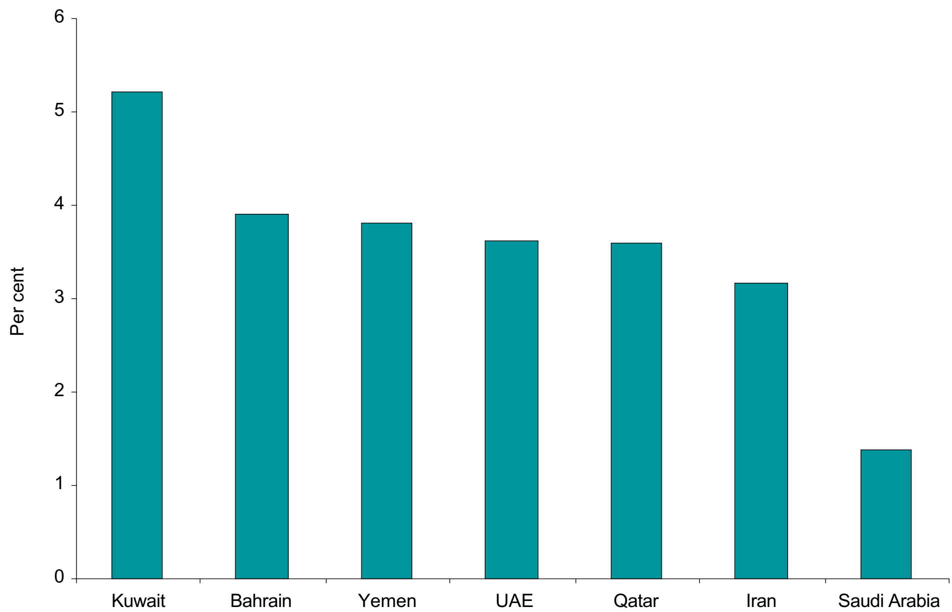
Source: World Bank, 2000a; and Datastream, 2000.

Kuwait, Qatar and the UAE have the highest purchasing power as measured by per capita GDP; Yemen and Iran have very low per capita incomes (Figure 1.2). However, market potential probably is greater than these figures indicate, as low domestic prices for many non-traded goods increase consumers' purchasing power. Purchasing power parity, PPP, estimates of per capita income show the average citizen's capacity to consume goods and services once account is taken of local price differences. In Saudi Arabia, Iran, Yemen and Bahrain, the difference between PPP per capita gross national product and US dollar per capita gross national product ranges is substantial (Figure 1.2). Most notably, in Iran, the PPP figure for GNP per capita is $5 121 compared to a per capita GDP figure of US$1 650.

Figure 1.3

Saudi Growth Slowest

Average Annual Real GDP Growth Rate over Decade, 1990-99



Note: While Saudi Arabia is the region's slowest growing economy, it is by far the largest economy, so a given level of economic growth results in more economic activity in absolute terms.

Source: Datastream, 2000.

Growth Performance

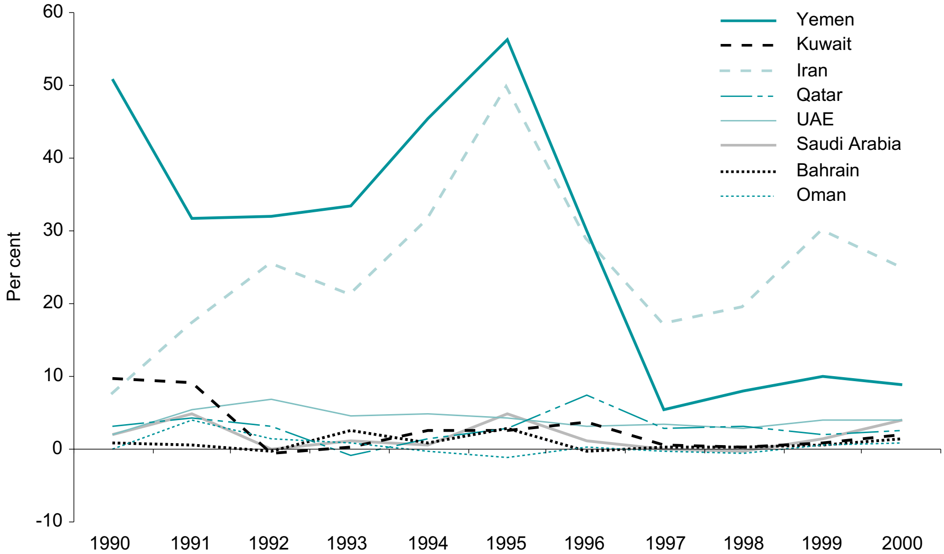
In the 1990s, largely reflecting oil price and production swings, Gulf economies' real GDP growth performance was erratic. Over the decade as a whole, real GDP growth was moderate, averaging 1.4 per cent in Saudi Arabia, 3.1 per cent in Iran, 3.6 per cent in the UAE and up to 5.2 per cent in Kuwait (Figure 1.3).[2]

[2] Kuwait's growth figures are distorted by the Gulf War induced contraction in 1990 and the subsequent rebound in 1992 and 1993.

Figure 1.4

Iran Has the Highest Inflation

Annual Consumer Price Rises in Arabian Peninsula and Iran, Per cent



Source: Datastream, 2000.

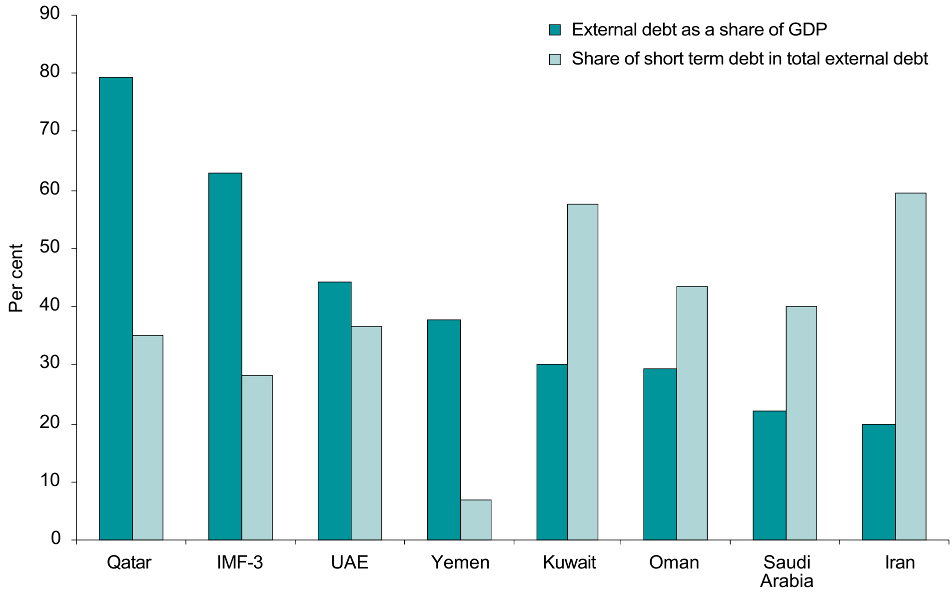
Inflation

By the 1990s, Arabian Peninsula governments had controlled the high inflation of the 1970s oil boom years (Figure 1.4). Gulf Cooperation Council, GCC, economies reduced inflation by controlling money supply and financing budget deficits by issuing bonds, rather than printing money. In the early 1990s, Yemen's severe inflation was due to shortages generated by the civil war and increased government spending associated with unifying North and South Yemen. However, by 1997, Yemen tightened monetary policy and issued bonds to finance budget deficits, quelling inflation. On the other hand, Iran's weak macroeconomic management, especially loose monetary policy, kept annual inflation above 20 per cent throughout the 1990s.

Figure 1.5

Short Term Debt Is High

External Debt as a Share of GDP and the Share of Short Term Debt, 1998



Note: IMF-3 refers to the Republic of Korea, Indonesia and Thailand.

Source: Bank for International Settlements, 2000; and World Bank, 2000b.

Foreign Debt Exposure

Except for Qatar, by international standards, Gulf economies did not have high external debt burdens in 1998. Qatar has a large debt due to its foreign borrowings to develop its huge gas deposits; these loans can be repaid readily from projected gas sales. However, most Gulf economies, and particularly Iran and Kuwait had a high proportion of short term debt, well above that of the Republic of Korea, Indonesia and Thailand (the IMF-3) in 1998 (Figure 1.5).

EXCHANGE RATE ARRANGEMENTS

Fixed and pegged[3] exchange rates predominate in the region making A$:US$ movements significant in driving Australian competitiveness. The UAE, Bahrain, Saudi Arabia, Kuwait, Qatar and Oman maintain longstanding fixed exchange rates against the US dollar (Table 1.1). Fixed exchange rates are backed by significant official and unofficial foreign exchange reserves generated from oil income.

[3] Fixed exchange rates do not change over the long term, while pegged exchange rates are revalued periodically. Saudi Arabia, the UAE, Kuwait, Oman, Qatar, and Bahrain all have maintained fixed exchange rates, pegged to the US dollar, since the early 1970s, while Iran and Yemen maintain pegged rates which have been revised periodically.

In late 1998 and early 1999, in the wake of the Asian financial crisis, Saudi foreign exchange reserves proved more than adequate to counter speculation against the Saudi riyal.

Yemen's exchange rate is a crawling peg against the US dollar and given Yemen's higher inflation rate, the dinar has been devaluing slowly. Iran maintains a complex system of multiple rates, which the central bank eventually wishes to unify. The official rate, available only to Iranian government ministries (R1 750:US$1), was only about 20 per cent of the more market determined rate that other importers pay (R8 200:US$1 in mid August 2000). Consequently, private sector importers often cannot obtain foreign exchange, even for export processing. Scarce foreign exchange is rationed to service foreign debt and pay for essential goods imports.

Table 1.1

Fixed Exchange Rates Predominate

Exchange Rates by Economy, Units per US dollar

Economy/currency	Units per US dollar 1995	Units per US dollar August 2000
Bahrain dinar, BHD	0.37	0.37
Iran rial, IRR	1747.93[a]	1 750 to 8 200
Kuwait dinar, KUD	0.30	0.30
Oman rial, OMR	0.38	0.38
Qatar riyal, QAR	3.64	3.64
Saudi Arabia riyal, SAR	3.75	3.75
United Arab Emirates dirham, AED	3.67	3.67
Yemen dinar, YED	40.83	158.59

Note: a Official rate only.

Source: International Monetary Fund, 2000; and Central Intelligence Agency, 1999.

DRIVERS OF ECONOMIC DYNAMISM

In the 2000s, the need to improve modest economic growth rates and diversify, urgent demographic and fiscal pressures, and in some cases, declining oil reserves, should drive considerable structural change in Gulf economies. This should boost foreign business opportunities.

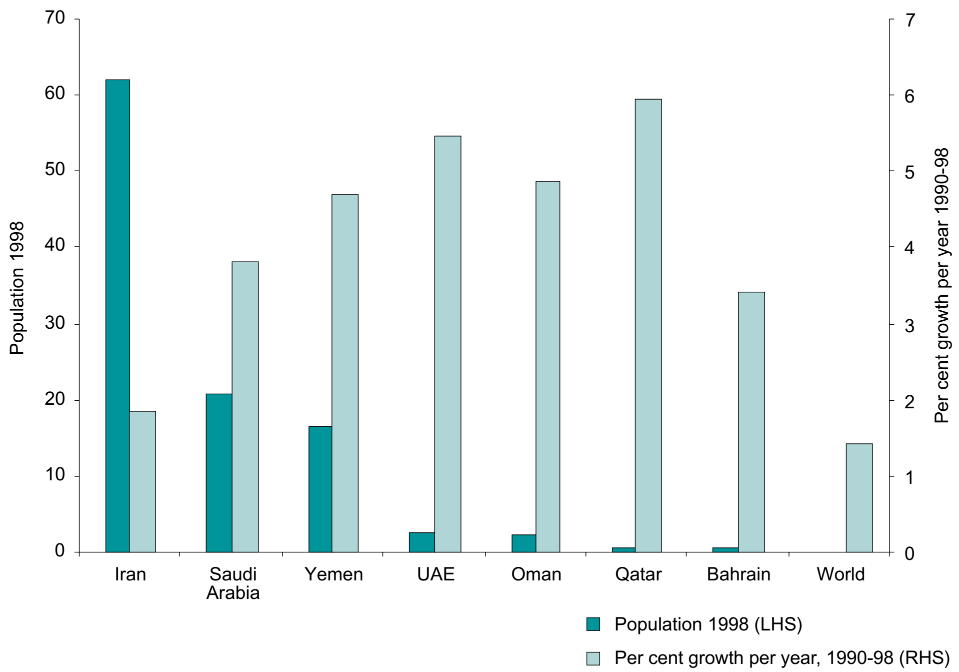
DEMOGRAPHICS

Except for Kuwait, populations in the Gulf economies are growing much faster than the world average, with high natural increases and continuing inflows of migrant workers (Figure 1.6).[4] Rates of natural increase have been high since the oil boom-baby boom in the 1970s. Hence GCC economy populations are very young, with two thirds under 25 years and half under 15 years (Figure 1.7).[5] This creates significant potential for exporters of youth related goods and services, and will drive growing urban infrastructure demand and growing demand for convenience foods as household formation increases. (See Chapter 3 - *Business Environment*.)

Figure 1.6

Population Growth Is High…

Population Level and Growth Rate, 1990-97



Source: World Bank, 1999a; and Asian Development Bank, 1999.

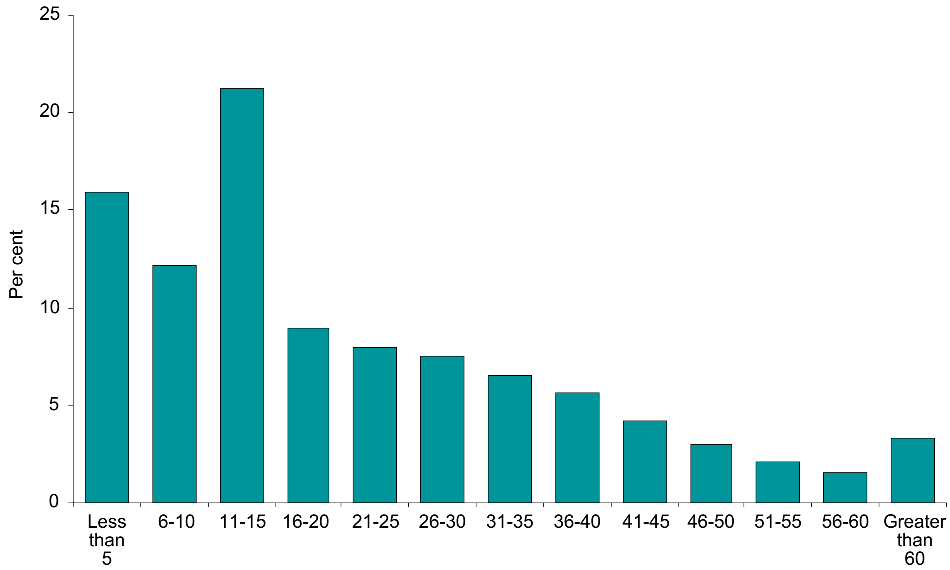
4 This rapid population growth is set to continue, with projected population increases between 1998 and 2050 of 161 per cent in Saudi Arabia, 51 per cent in the UAE, 72 per cent in Iran, 238 per cent in Oman, 43 per cent in Qatar, 64 per cent in Bahrain, 86 per cent in Kuwait and 236 per cent in Yemen, compared to a projected increase in world population of 49 per cent (United Nations, 2000).

5 Iran's population also is very young with 70 per cent of the population aged under 25. Kuwait's low population growth is due to the exodus of locals and expatriates during the Gulf War.

Figure 1.7

...and Populations Young

Population Age Structure in GCC Economies



Source: Gulf Cooperation Council, 1999.

Population Growth and Reform

Moderate real economic growth and rapid population growth together lower per capita living standards. Between 1990 and 1998, average per capita gross national product fell at an annual rate of 1.1 per cent in Saudi Arabia, 1.6 per cent in Iran and 2.4 per cent in Bahrain (World Bank, 2000a). Falling living standards motivate reforms.

Rapid workforce growth, flowing from earlier population growth, also drives major reforms, particularly in Saudi Arabia, Bahrain, Qatar, the UAE and Iran where population growth exceeds economic growth (Figure 1.8).[6] Such a situation increases unemployment pressures, although official unemployment statistics generally are not available in Gulf economies, except for Iran where the official unemployment rate was 13.1 per cent in the year ending 20 March 1998.

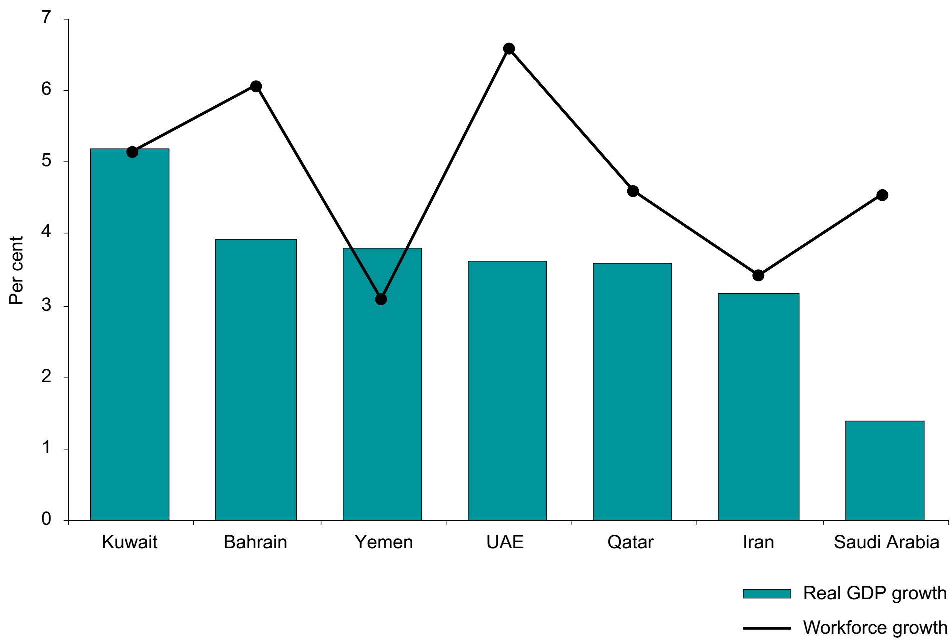
Saudi Arabia illustrates the pressures building from the divergence between workforce growth and economic growth. The government workforce, the mainstay of employment to date, is unlikely to expand. Saudiisation mandates the replacement of skilled expatriates with Saudis, providing a pool of jobs for new Saudi citizens entering the workforce, with the Government expecting private sector

6 The workforce is defined as all people willing and able to work at the current wage rate, whether employed or unemployed.

Figure 1.8

Workforce Growth Outpacing GDP Growth

Workforce Growth and GDP Growth, 1990-99



Source: Datastream, 2000.

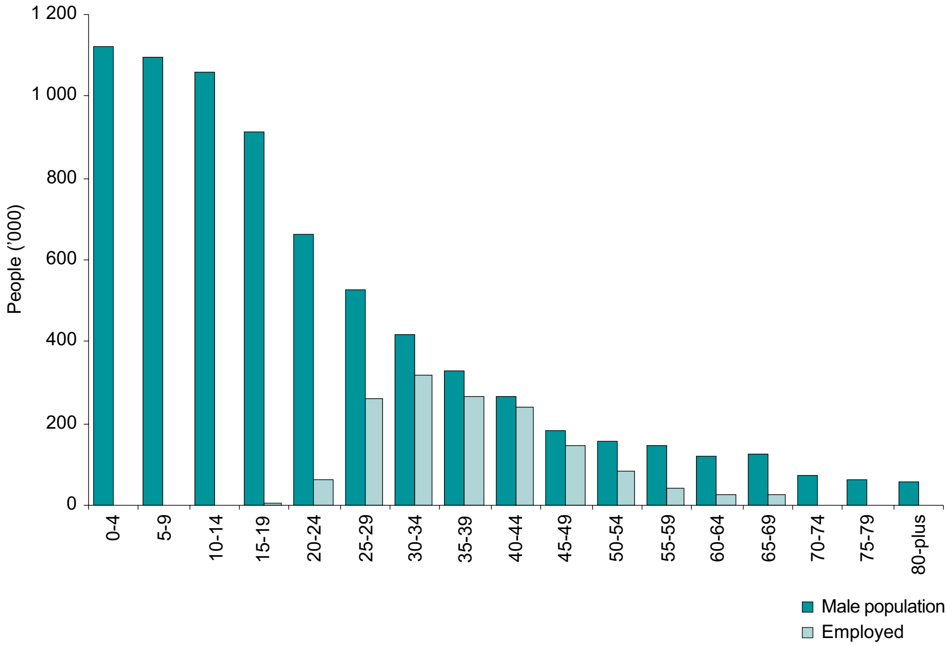
companies to increase the percentage of Saudis employed by 5 per cent per year (Saudi American Bank, 2000). With around two million suitable jobs currently performed by expatriates, economic growth of 2 per cent with constant productivity would add around 40 000 new jobs per year, in addition to the 100 000 likely to flow from Saudiisation.[7] However, with 913 000 males aged between 15 and 19 years, and one million aged between 10 and 14, in coming years, workforce entrants will bulge massively (Figure 1.9). The only long term option to employ these young people is to stimulate rapid private sector job growth through further deregulation and internationalisation.

7 In total, expatriates perform around four million jobs in Saudi Arabia, but Saudi citizens are likely to want to perform around half of these as the remainder are unskilled or unpleasant jobs (Saudi American Bank, 2000).

Figure 1.9

Saudi Arabia Set for Massive Workforce Growth

Age Structure of Saudi Arabia's Male and Employed Populations



Source: Saudi American Bank, 2000.

THE ROLE OF FOREIGN WORKERS

GCC populations feature high proportions of expatriate residents, ranging from around 75 per cent in UAE and Qatar to 27 per cent in Oman and Saudi Arabia. These workers are important economically, performing skilled and unskilled, and unpleasant work. Even in Iran, over three million largely unskilled refugees, mostly from Afghanistan and Iraq, work illegally.

The main source of expatriate workers is the Indian subcontinent, followed by South East Asia and other Middle East countries. In the UAE, Indians account for 29 per cent of the population, Pakistanis and Bangladeshis, 20 per cent, Filipinos, 7 per cent, and Egyptians and Lebanese, 3 per cent each (Jeffreys, 2000, pp. 9-10).

Despite ongoing policies to localise employment, most GCC nationals are unlikely to compete for blue collar construction or manufacturing jobs, such as in heavy industry.

Workforce Growth and Education

To avoid economic disruption as local citizens replace skilled expatriates in the workforce, nationals must have better access to education and skills training. This opens up opportunities to attract additional students to Australia and provide in-country educational services. (See Chapter 2 - *Australian Opportunities*.)

DIVERSIFICATION AWAY FROM OIL

All Gulf economies are highly reliant on oil. The share of oil in GDP ranges from 17 per cent in Iran to 38 per cent in Qatar (Figure 1.10). Oil reliance for exports is higher, ranging from 23 per cent in Bahrain to 90 per cent in Saudi Arabia, while oil reliance for government finances ranges from 41 per cent in Iran to 89 per cent in Kuwait (Figure 1.10). Consequently, oil prices strongly influence economic activity, export income, domestic demand and government expenditure, particularly capital expenditure.

To reduce oil dependence, regional governments employ four main strategies:

- developing gas industries and gas powered heavy industry, including petrochemicals, aluminium and steel
- expanding service sectors including tourism, finance, transport and distribution
- promoting import substitution industrialisation via tariff barriers
- requiring defence offsets, which involve suppliers of military equipment investing in often unrelated areas, as part of their contractual obligations.

Expansion of Gas and Heavy Industries

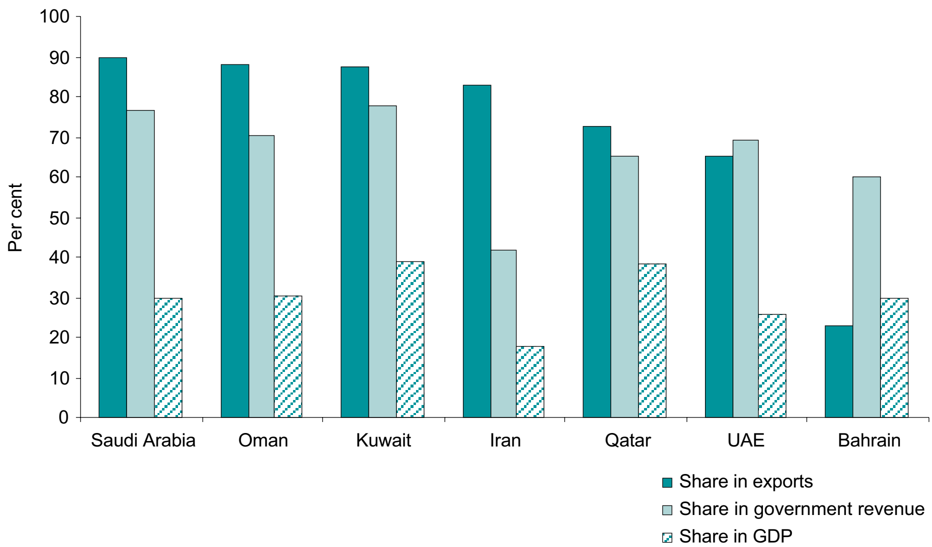
Saudi Arabia, Qatar, Iran, Oman and the UAE are expanding their gas industries; to achieve this, they seek foreign involvement. (See Chapter 4 - *Foreign Investment*.) As Iran, Qatar, the UAE and Saudi Arabia alone contain 30 per cent of the world's proven natural gas reserves, many with relatively low development costs, gas developments have enormous potential (BP Amoco, 1999).

In addition to being exported, gas also will be used as an energy source to generate electricity and fuel energy intensive industry. A prime new development is the proposed Dolphin pipeline from Qatar's giant North gas field through the UAE and into Oman; if it proceeds, it will fuel electricity generation and aluminium, steel and petrochemical industries (Fawzy, 2000). Similarly, in Saudi Arabia, the Crown Prince has invited selected foreign companies to submit proposals for upstream and downstream gas development projects. (See Chapter 4 - *Foreign Investment*.)

Figure 1.10

Oil the Dominant Economic Driver

Share of Oil Revenue in GDP, Exports and Government Revenue



Note: a Gross domestic product, GDP, figures are for fiscal year 1997-98 for Iran, 1997 for Saudi Arabia, 1998 for Oman, and 1999 for the UAE and Qatar.

b Export figures are for 1998 for all economies and refer to crude oil and petroleum.

c Government finance figures are for 1998 for Kuwait, Saudi Arabia and Oman, 1997-98 for Iran and Qatar, and 1997 for the UAE.

d For Saudi Arabia and Oman, GDP figures refer to crude petroleum and natural gas. For all other economies, GDP figures refer to oil.

e Government finance figures relate to oil and gas for all economies, except Kuwait where the figures relate to oil only.

Source: Economist Intelligence Unit, 1999a, 1999b, 1999c, 1999d, 1999e, 1999f, 1999g and 1999h; Gulf Cooperation Council, 1999; and International Economic Data Bank 2000.

Currently, most major regional heavy industry companies, such as Saudi Arabian Basic Industries Corporation, Dubai Aluminium and the Aluminium Company of Bahrain, are majority state owned. However, proposed heavy industry expansions require massive amounts of capital. This should increase opportunities for foreign companies to take equity shares in projects, or at least provide expertise. Heavy industry expansion also should create additional opportunities for Australia to increase alumina, and iron and steel making resources exports. (See Chapter 2 - *Australian Opportunities.)*

Stimulating Services Sectors

Gulf economies are expanding their service sectors to diversify their economies. Dubai and Bahrain are setting the pace, with their service sectors accounting for 70 per cent and 78 per cent of their respective GDPs, compared to only 49 per cent in Saudi Arabia.[8] Dubai is the Arabian Peninsula's premier re-export centre, servicing the Middle East and Africa. (See Chapter 5 - *Trade*.) It also is a substantial tourism, financial, exhibition and conference centre. Bahrain is a major offshore banking centre and like Dubai, targets regional headquarters and tourism investment.

With a growing imperative to strengthen private sector employment, all regional economies need to expand their telecommunications, information technology, tourism, finance and education sectors. As part of this process, increasing opportunities should emerge for foreign service providers. Already Oman has committed to liberalise its electricity and telecommunications markets as part of its World Trade Organization, WTO, accession agreement, while Iran, Oman and Saudi Arabia are attempting to boost tourism. (See Chapter 2 - *Australian Opportunities* and Chapter 5 - *Trade*.)

Import Substitution Policies

In the past, to diversify, many Gulf governments pursued import substitution policies assisted by trade barriers. With no incentive to export, mostly small local markets and limited foreign competition, these policies failed to create viable new industries. However, with all regional economies except Iran and Yemen now WTO members or well advanced in the accession process, these policies will be even less successful in diversifying industry.[9]

One major import substitution industry likely to remain is food processing; Saudi Arabia alone has around 400 plants relying on imports for 75 per cent of their inputs (Austrade, 2000). Further, Saudi Arabia still protects its agricultural sector.

Defence Offsets

Saudi Arabia, the UAE and Kuwait still use defence offset programs. These raise the cost of military acquisitions but can provide a form of assistance to foreign companies looking to establish Gulf businesses. (See Chapter 2 - *Australian Opportunities*.) However, to be a successful diversification tool, incentives to export and establish value-adding businesses must be strong.

---

8 These figures come from Jeffreys, 2000, pp 31-33; Bahrain Monetary Agency, 1998; and World Bank, 2000b. For these calculations, Dubai's service sector includes trade, transport and communications, real estate, government services, finance and insurance, restaurants and hotels, and other services. Bahrain's service sector includes trade, hotels and restaurants, transport and communication, social and personal services, real estate, onshore and offshore financial institutions, insurance, government and household services.

9 The UAE, Kuwait, Qatar and Bahrain already are WTO members. Oman's accession is imminent, while Saudi Arabia's is in process.

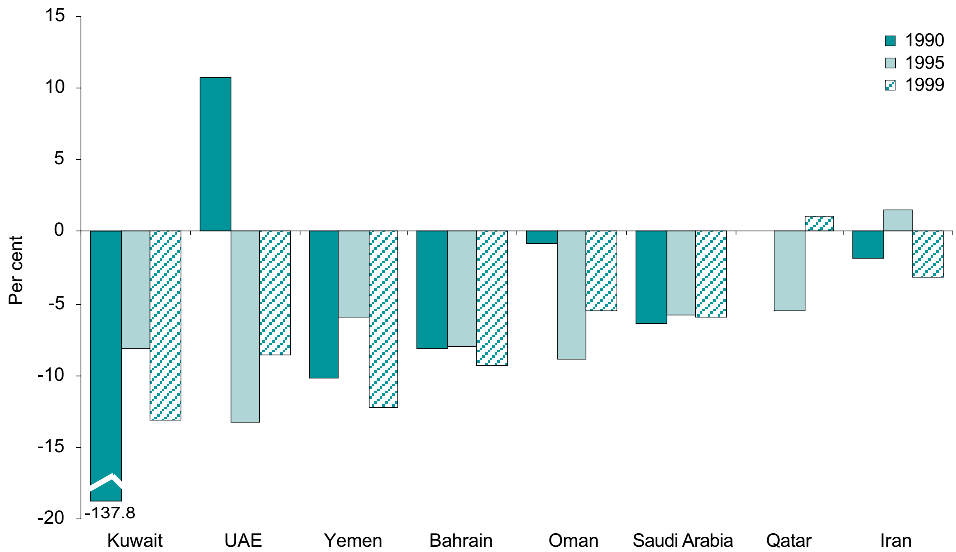
FISCAL PRESSURES

Gulf economies generally run weak fiscal policies, operating deficits in most years, and failing to run these down when oil revenues are high. Apart from Qatar, all Gulf economies have budget deficits; in 1999, these averaged 7 per cent of GDP (Figure 1.11). Persistent deficits generate large official debt stocks. For example, Saudi Arabia's central government debt stock in 1998 was 116 per cent of GDP, with interest payments consuming 25 per cent of expenditure in 1999 (Saudi American Bank, 2000).

Figure 1.11

Budget Deficits the Norm

Government Budget Balances as a Percentage of GDP



Note: a The 1990 figure for Kuwait (-137.8) is massively distorted by disruption during the Gulf War.

b 1990 figures and all Bahrain figures are from Datastream, 2000.

Source: Business Monitor International, 2000a; and Datastream, 2000.

While in 2000, high oil prices will relieve fiscal strains, pressures remain to control expenditure and diversify revenue. All regional governments need to invest more in economic and social infrastructure as populations boom and demand for utilities, education and health burgeons.

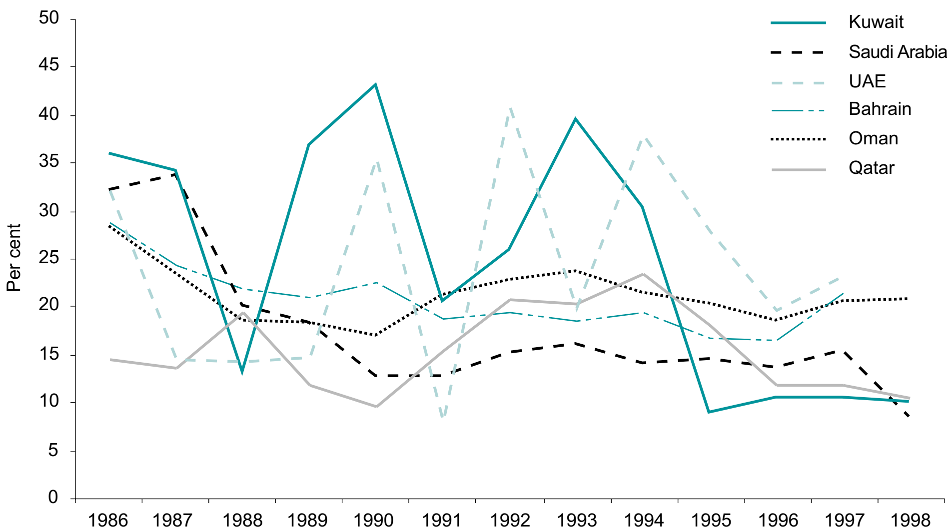
Expenditure Restraint

During the 1990s, uncertainty about oil revenue led Gulf governments to more seriously control expenditure. For example, the Saudi Government reduced expenditure by 14 per cent in 1998 and by a further 5 per cent in 1999. Expenditure should rise only 2.2 per cent in 2000, despite higher oil prices (Saudi American Bank, 2000; and Business Monitor International, 2000b).[10] However, fiscal control mechanisms are crude, largely relying on slowing or postponing capital spending. Consequently, the share of capital expenditure in total expenditure fluctuates dramatically (Figure 1.12). This situation is most serious in Saudi Arabia, where government capital expenditure has declined over the long term (Figure 1.13).

Figure 1.12

Capital Expenditure Fluctuates

Share of Capital Expenditure in Total Government Expenditure for GCC Economies, Per cent



Source: Gulf Cooperation Council, 1999; and Saudi American Bank, 2000.

Revenue Diversification Efforts

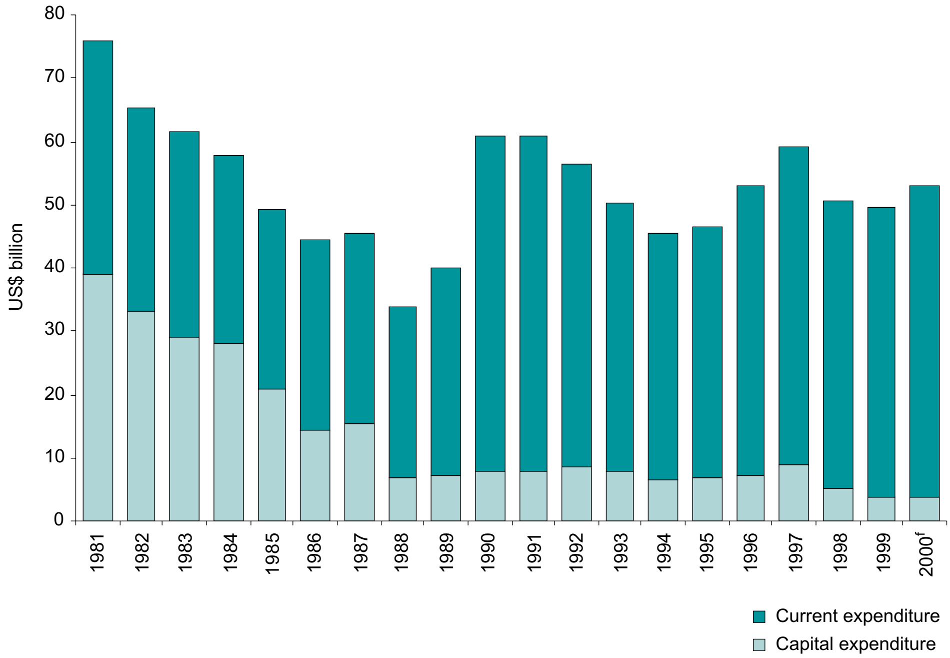
Few regional governments impose broad based sales taxes or company or personal income taxes; instead, most rely on oil revenues to finance government spending. As this introduces excessive volatility to government receipts, many regional governments are attempting to increase non-oil revenue. However, rather than structurally reforming the tax system, by introducing personal or company income taxes, or broad based consumption taxes, most measures have been piecemeal. For example, in 1999, Saudi Arabia introduced airport taxes, and raised visa charges, retail fuel prices and electricity tariffs (Saudi American Bank, 2000).

[10] The 2.2 per cent expenditure rise in 2000 represents the difference between actual 1999 expenditure and projected 2000 expenditure (Business Monitor International, 2000b).

Figure 1.13

Saudi Capital Expenditure in Long Term Decline

Capital and Current Expenditure by the Saudi Government, US$ billion



Source: Saudi American Bank, 2000.

Implications of Growing Fiscal Pressures for Foreign Companies

Growing fiscal pressures create opportunities for foreign companies in social services, infrastructure provision and financing.

Trend Towards User Pays

Without major tax reforms, a key method to improve the budget balance is to increase use of the user pays principle for education and health services. This should open up new opportunities for foreign providers to supply services.

Increased Private Infrastructure Provision

Most Gulf economies also now seek to compensate for inadequate government revenue by attracting privately provided infrastructure. Increasingly, Gulf Governments recognise the fiscal burden of publicly funding and subsidising electricity and water infrastructure needs, and the potential efficiency benefits of private provision. (See Chapter 4 - *Foreign Investment*.) Oman is setting the pace by establishing a best practice market and regulatory regime for private electricity provision. However, Gulf economies have massive requirements for additional electricity and water production and distribution, as well as for enhanced telecommunications, gas and oil pipelines, railways and ports. Between 2000 and 2006, Saudi Arabia, Iran, the UAE, Kuwait, Qatar and Oman will require new electricity infrastructure with an estimated value of US$40 billion (Business Monitor International, 2000d).

Increased Importance of Private Finance

Continuing government efforts to increase private infrastructure provision also will increase the role of private financiers. Foreign financial institutions already are active in infrastructure and project finance, and this role should escalate. Opportunities to sell expertise and services also should increase in other areas, particularly in equity markets if the UAE's stock exchange, established in March 2000, is successful.

THE RELATIVE ROLE OF WESTERN AND ISLAMIC FINANCE

Islamic financing of infrastructure could increase due to the massive funding needs and the new pool of funds Islamic financing can access (Knox, 2000). Conventional and Islamic methods of financing co-exist in GCC economies; most financing currently uses conventional lending arrangements, but Islamic financing is becoming more popular as more products, including managed funds, are developed.

The relative importance of Western and Islamic financing varies throughout Gulf economies. Saudi commercial banks levy service charges for conventional lending rather than charging interest. Other Arabian Peninsula states offer interest on conventional lending, but have specialist Islamic banks, such as Dubai Islamic Bank and Abu Dhabi Islamic Bank, and offer Islamic products within traditional commercial banks. The Iranian banking system is a hybrid of Islamic and western systems. The term 'profit share' is widely used for returns, although the share is calculated as a percentage, like interest. Moreover, the Central Bank of Iran uses term deposits to soak up excess liquidity.

DECLINING OIL RESERVES

At current production rates, oil reserves in Saudi Arabia, Abu Dhabi, Iran and Kuwait should last over 65 years, but in Qatar, Oman, Dubai and Bahrain oil reserves will last only another 10 to 15 years (Figure 1.14) (Jeffreys, 2000, pp. 9-10).

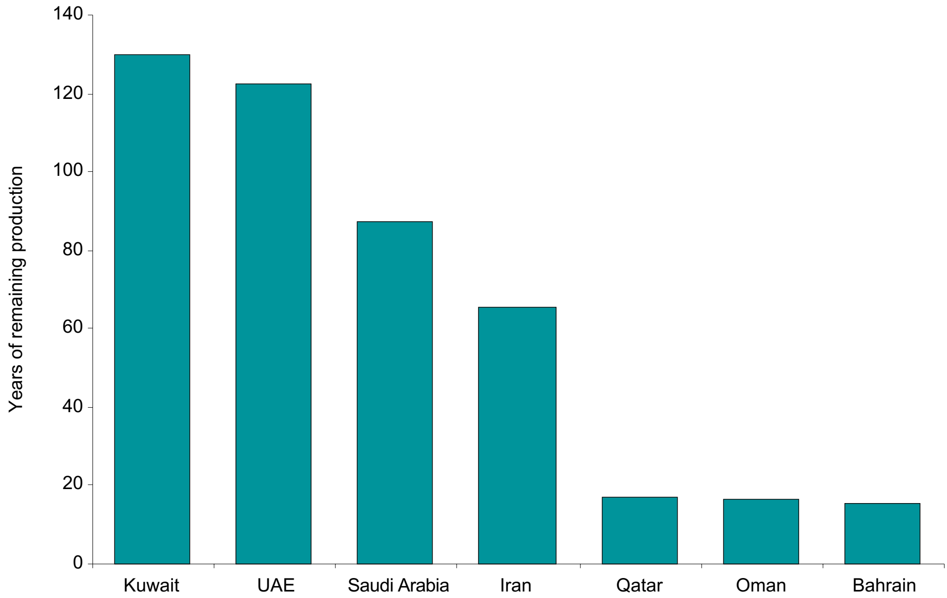
The prospect of oil reserves running out is a powerful incentive to diversify and reform economies. It creates regional examples of successful strategies. For example, Dubai successfully reoriented its economy, so oil now accounts for under 8 per cent of GDP.[11] Dubai now achieves more rapid and less volatile growth than major oil producers; oil rich states may emulate its strategy. Similarly, Oman is adopting a world's best practice approach to attracting private sector infrastructure providers, and encourages foreign participation in its oil and gas sectors.

11 The share of oil in gross domestic product comes from Jeffreys, 2000, pp. 31-33.

Figure 1.14

Qatar, Oman and Bahrain Face Declining Oil Reserves

Years of Production at Current Extraction Rates, 1997



Note: Iran data are for 1998 from Jeffreys, 2000.

Source: Gulf Cooperation Council, 1999; and Jeffreys, 2000, pp. 47-49.

IMPLICATIONS

Very modest and volatile growth, demographic and fiscal pressures, the need for diversification and declining oil reserves create strong reform pressures. Current high oil prices may reduce the short term imperative for reform, but few governments are likely to change long term strategies.

In 2000, high oil prices will stimulate import growth which should assist new products in penetrating the market. More importantly, ongoing reforms should open more investment opportunities to foreign companies in gas production, infrastructure provision, manufacturing, finance and education. Goods and services trade opportunities are expanding as Gulf economies increasingly source imports from the most competitive suppliers.

REFERENCES

Asian Development Bank, 1999, *Key Indicators of Developing Asian and Pacific Countries*, Vol. 30, Oxford University Press, Oxford.

Austrade, 2000a, 'Australia's Trade Relations with the Middle East Including the Gulf Region', Austrade submission to Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's Relations with the Middle East, March, Canberra.

Bahrain Monetary Agency, 1998, *Annual Report 1998*, Bahrain Monetary Agency, Bahrain.

Bank for International Settlements, 2000, 'Joint BIS-World Bank-OECD Statistics on External Debt', www.bis.org/publ/index.htm, accessed on 9 March 2000.

BP Amoco, 1999, 'Statistical Review of World Energy', BP Amoco, London.

Business Monitor International, 2000a, 'Regional Macroeconomic Data and Forecasts', August, p. 12.

___ 2000b, 'Saudi Arabia: Careful Spending in 2000', *Middle East Monitor*, February, pp. 2-4.

___ 2000c, 'Saudi Arabia: High Noon in the Neutral Zone', *Middle East Monitor*, March, pp. 2-4.

___ 2000d, 'UAE: Gradual Growth of Foreign Ownership', *Middle East Monitor*, July, pp. 5-7.

CEIC, 2000, CEIC Database, Hong Kong, supplied by Econdata, Canberra.

Central Bank of Iran, 1998, *Annual Review 1997-98,* Central Bank of Iran, Tehran.

Central Intelligence Agency, 1999, 'CIA World Factbook 1999', www.cia.gov/cia/publications/factbook/index.html, accessed on 18 April 2000.

Datastream, 2000. Datastream Database, supplied by Primark Corporation, Massachusets, www.primark.com, accessed on 15 July, 2000.

Economist Intelligence Unit, 1999a, *Iran 1999-2000 Country Profile,* EIU, London.

___ 1999b, *Saudi Arabia 1999-2000 Country Profile*, EIU, London.

___ 1999c, *United Arab Emirates 1999-2000 Country Profile*, EIU, London.

___ 1999d, *Iran 1999-2000 Country Profile*, EIU, London.

___ 1999e, *Kuwait 1999-2000 Country Profile*, EIU, London.

___ 1999f, *Oman 1999-2000 Country Profile*, EIU, London.

___ 1999g, *Bahrain/Qatar 1999-2000 Country Profiles*, EIU, London.

___ 1999h, *Yemen 1999-2000 Country Profiles*, EIU, London.

Fawzy, H., 2000, 'Dolphin', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Gulf Cooperation Council, 1999, *Economic Bulletin*, Vol. 14, Gulf Cooperation Council, Riyadh.

International Economic Data Bank, 2000, International Economic Data Bank, Australian National University, Canberra.

International Monetary Fund, 2000, *International Financial Statistics*, IMF, Washington DC.

Jeffreys, A. (ed.), 2000, *Emerging Emirates 2000*, Oxford Business Group, London.

Knox, G., 2000, 'Raising Finance for Middle East Infrastructure Projects', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Saudi American Bank, 2000, 'The Saudi Economy: 1999 Performance, 2000 Forecast', February, Riyadh.

United Nations, 2000, 'United Nations Population Information Network', United Nations Population Division, Department of Economic and Social Affairs, www.undp.org/popin, accessed July 2000.

World Bank, 2000a, *World Bank Atlas 2000*, World Bank, Washington DC.

___ 2000b, *Entering the Twenty First Century: World Development Report 1999/2000*, World Bank, Washington DC.

AUSTRALIAN-GULF BUSINESS

KEY POINTS

- **Australian trade with the Gulf region grew significantly in the 1990s. The region remains a growing and important market for Australia's agricultural and mineral exports. Manufactured export values, particularly for cars, are large and rapidly growing. As a share of total Australian exports to the Gulf, elaborately transformed manufactures, ETMs, have expanded more dramatically than in any other major Australian export market.**

- **The Gulf's planned heavy industry growth should boost Australian exports of alumina and iron and steel making inputs and increase incentives for Gulf economies to invest in Australia.**

- **Key areas of export opportunity include bulk and high value agricultural products, processed food industry inputs, manufactures including cars, food processing machinery, telecommunications equipment, medical and pharmaceutical products, and construction, education and tourism services.**

- **Australia's small, diverse investment presence in the Gulf is mostly in UAE manufacturing and distribution, or the region's petroleum extraction or gas sectors. However, other attractive investment opportunities include infrastructure, mining, manufacturing, finance, tourism, transport and business services.**

Australia has well established export markets in the Gulf and a rapidly growing investment presence. In the last decade, Australia's merchandise exports to the Gulf economies expanded rapidly, averaging almost 11 per cent per year since 1990, and almost 20 per cent per year since 1995. By 1999, two way trade topped A$4.3 billion, with Australia's goods and services exports valued at A$3 billion, up from only A$1.6 billion in 1990 (Department of Foreign Affairs and Trade, 2000). While primary exports remain very important, car exports now exceed A$800 million per year. In the next decade, the challenge will be to expand higher value added food exports, diversify manufactured exports beyond cars, expand Australia's investment presence and attract more Gulf investment to Australia.

This chapter first briefly examines Australia's main Gulf markets. It then highlights major sectoral export trends and examines key export opportunities including in the service sector. Next it explores Australia's current direct investment in the Gulf and investment opportunities. It analyses Gulf economies' current and potential direct investment in Australia and exports to Australia. Finally, it discusses Australian business links with the Gulf.

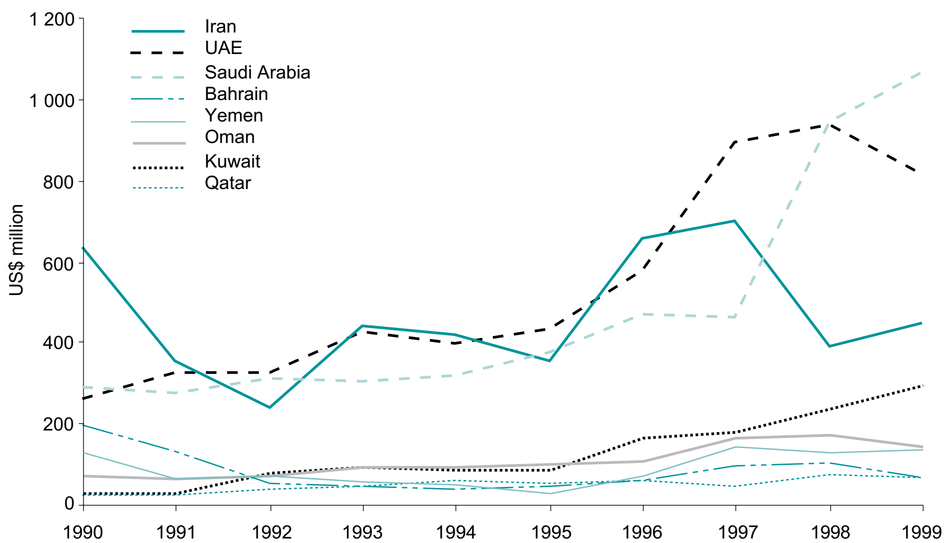
AUSTRALIA'S EXPORTS - MAJOR GULF MARKETS

Australia's main Gulf markets are Saudi Arabia, the UAE and Iran. Over the past decade, manufactured exports to Saudi Arabia and the UAE grew strongly. Exports to Iran were more volatile with no clear trend (Figure 2.1).

Figure 2.1

Saudi Arabia and the UAE Are Australia's Key Gulf Markets

Australia's Merchandise Exports to the Arabian Peninsula and Iran, 1990-99



Source: Department of Foreign Affairs and Trade, 2000.

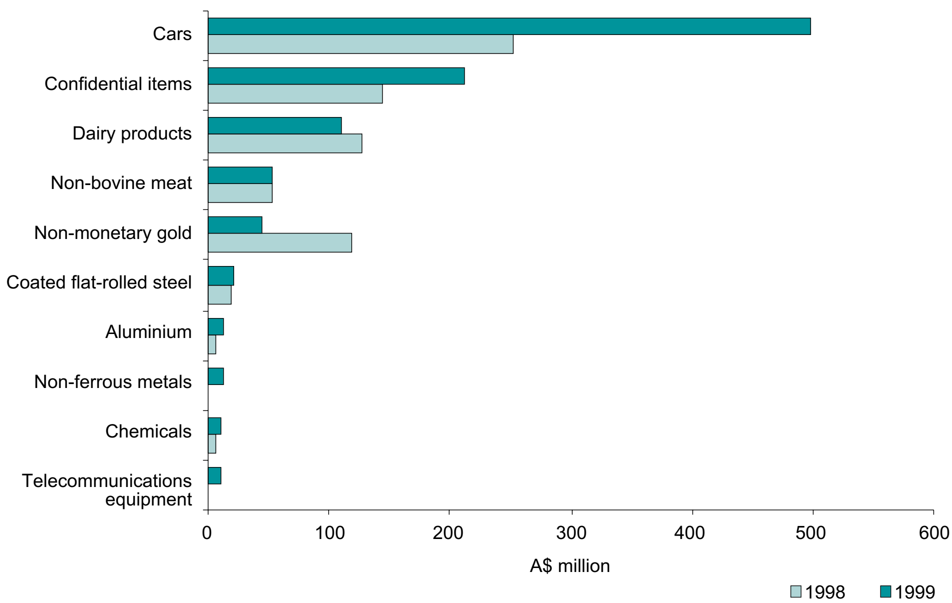
Saudi Arabia

In 1999, Saudi Arabia was Australia's main Gulf export market (Figure 2.1), accounting for 35 per cent of Australian exports to Gulf economies and 55 per cent of elaborately transformed manufacture, ETM, exports. Since 1997, exports have expanded at an annual rate of 52 per cent due to surging demand for Australian produced cars. In 1999, apart from cars (worth A$499 million, and in the year to 30 June 2000, A$700 million), major exports to Saudi Arabia included confidential items like sugar (A$212 million), dairy products (A$99 million), non-bovine meat (A$52 million), non-monetary gold (A$45 million) and flat rolled steel (A$21 million) (Figure 2.2).

Figure 2.2

Cars Dominate Exports

Top Ten Australian Exports to Saudi Arabia, 1998-99



Source: Department of Foreign Affairs and Trade, 2000.

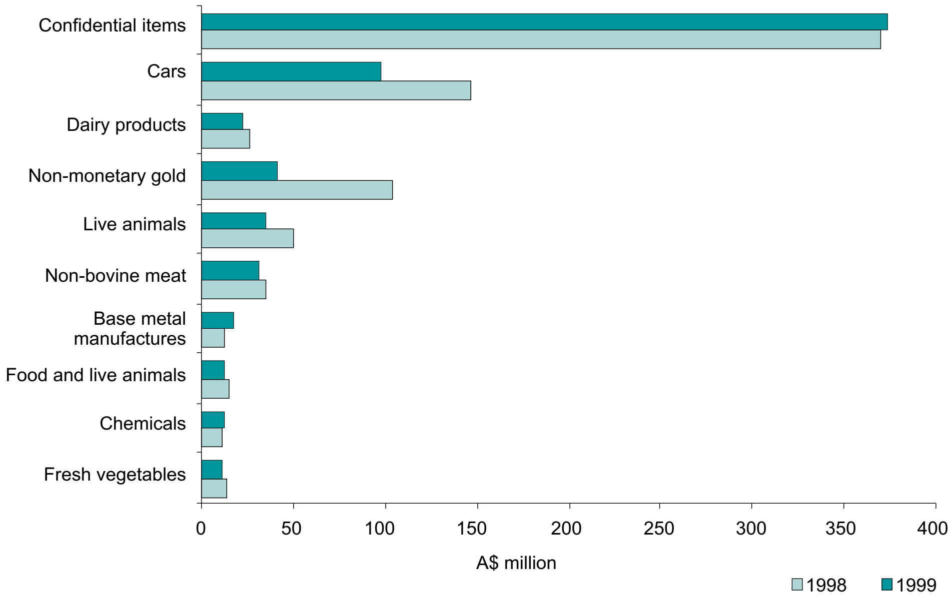
The UAE

The UAE was Australia's second largest Gulf export market in 1999, receiving 27 per cent of Australia's Gulf exports. Exports were 89 per cent above 1995 levels. In 1999, the UAE's main Australian imports were confidential items, principally alumina (A$373 million), cars (A$98 million), non-monetary gold (A$41 million), live sheep (A$35 million), non-bovine meat (A$32 million) and dairy products (A$24 million) (Figure 2.3).

Figure 2.3

Alumina Is a Major Export

Top Ten Australian Exports to the UAE



Source: Department of Foreign Affairs and Trade, 2000.

Iran

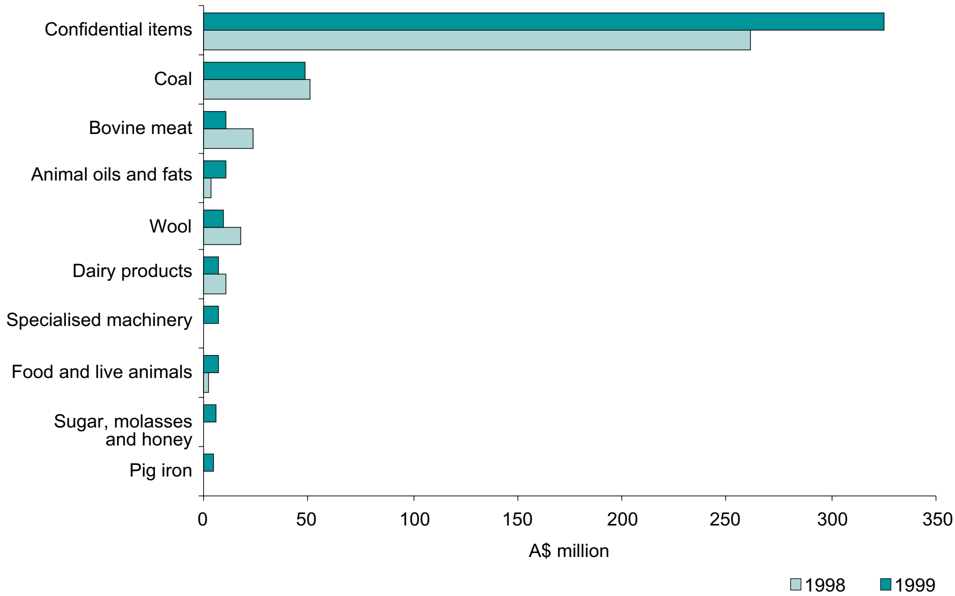
Before 1990, Iran was easily Australia's largest Gulf export market. It remains Australia's third most important market and a key bulk commodity market (Figure 2.4). Over the 1990s Iran's relative importance as an export destination shrank dramatically due to strong growth in exports to the UAE and Saudi Arabia, and Iran's weak economic performance and chronic foreign exchange shortages. Iran's imports also fluctuate as climatic conditions determine wheat and sugar imports.

In 1999, major exports to Iran included wheat, barley and other agricultural products classified as confidential items (A$325 million), coking coal (A$48 million), bovine meat (A$11 million), animal oils and fats (A$11 million), and wool (A$9 million). Non-agricultural exports were constrained due to prohibitions on car imports and, since 1993, generalised non-essential import restrictions resulting from export revenue shortfalls.

Figure 2.4

Iran Is a Major Australian Agricultural Export Market

Top Ten Australian Exports to Iran



Source: Department of Foreign Affairs and Trade, 2000.

Other Regional Markets

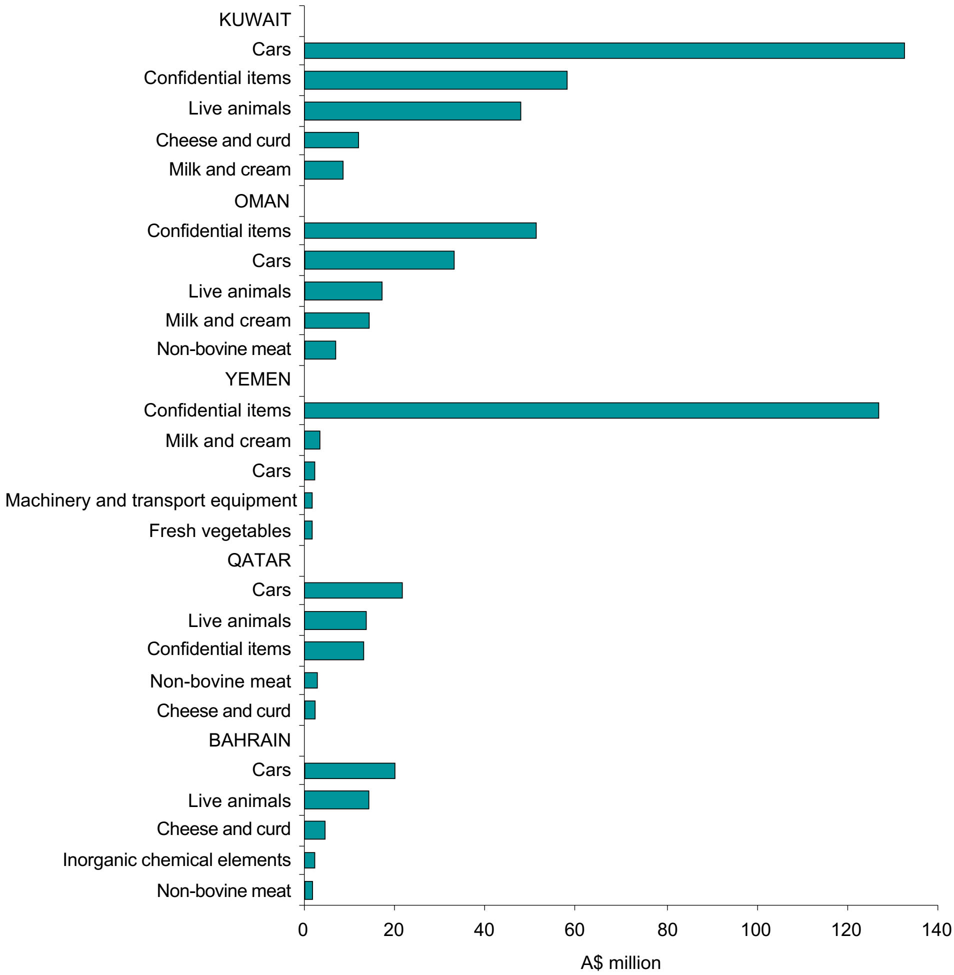
Among other Gulf economies, Kuwait and Oman are the most important markets (Figure 2.5).[1] Between 1995 and 1999, Australian exports to Kuwait increased more than threefold from A$83 million to A$293 million, and exports to Oman rose 13 per cent per year to reach A$145 million. Major export items to Kuwait include cars (A$132 million), confidential items (A$58 million), live animals (A$48 million) and dairy products (A$27 million), while for Oman, they include confidential items (A$51 million), cars (A$33 million) and live animals (A$17 million) (Figure 2.5). Australia also exported A$127 million in confidential items (mostly wheat) to Yemen.

[1] Bahrain also is important due to large alumina exports. However, the Australian Bureau of Statistics classifies these exports as ‘confidential’; hence, they do not show up in Australia’s trade statistics.

Figure 2.5

Kuwait Is a Major Car Market

Top Five Exports to Kuwait, Oman, Yemen, Qatar and Bahrain, 1999, A$ million



Note: Data on Australia's large-scale alumina exports to Bahrain are unavailable due to confidentiality restrictions.

Source: Department of Foreign Affairs and Trade, 2000.

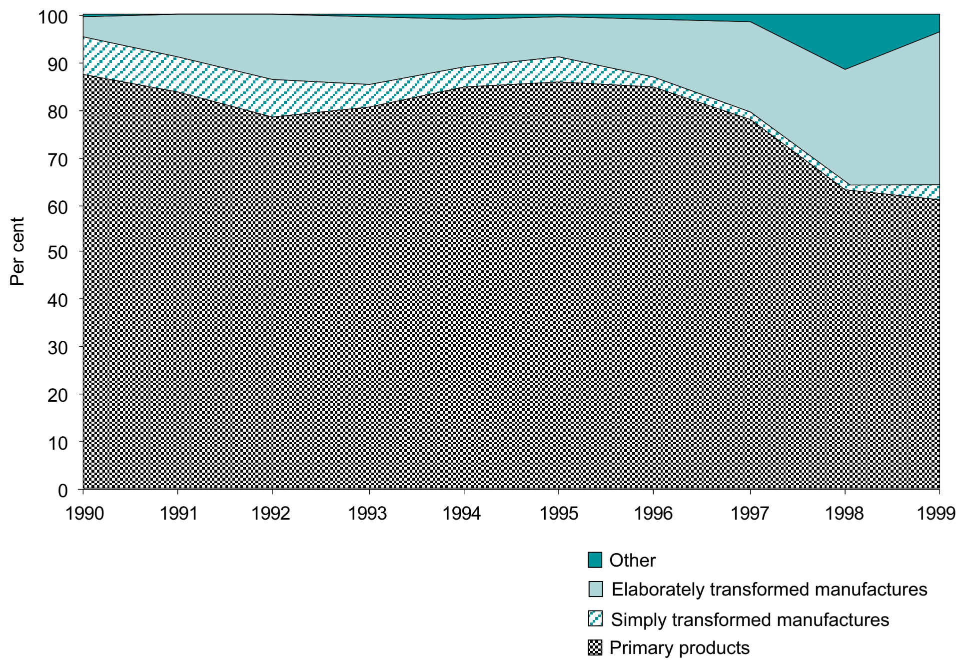
MAJOR SECTORAL TRENDS FOR AUSTRALIAN EXPORTS

While primary products still dominate Australia's Gulf exports, over the decade primary products' share in total Australian exports to the Gulf shrank from 87 to 60 per cent, while ETMs' share grew from 5 to 34 per cent (Figure 2.6). This ETM growth was more rapid than in any other major Australian market. Over the same period, ETM export shares to Asia grew from 9 to only 13 per cent, to Europe from 20 to 26 per cent and to the United States from 23 to 37 per cent.

Figure 2.6

Primary Products Dominate, ETM Exports Expand Rapidly

Composition of Australian Merchandise Exports to the Gulf Region, 1990-99



Note: a ETMs are manufactured products with unique features that are identified as differentiated goods on world markets. They are predominantly finished goods.

b Simply transformed manufactures are the remaining manufactured exports and consist largely of basic, unworked iron, steel and non-ferrous metal products.

Source: Department of Foreign Affairs and Trade, 2000.

MANUFACTURED EXPORTS

As a result of the rapid growth in car exports during the 1990s, by 1999 approximately 95 per cent of manufactured exports were ETMs.

Elaborately Transformed Manufactures

Between 1990 and 1999, as car exports boomed, Australian ETM exports to the Gulf grew 29 per cent per year.

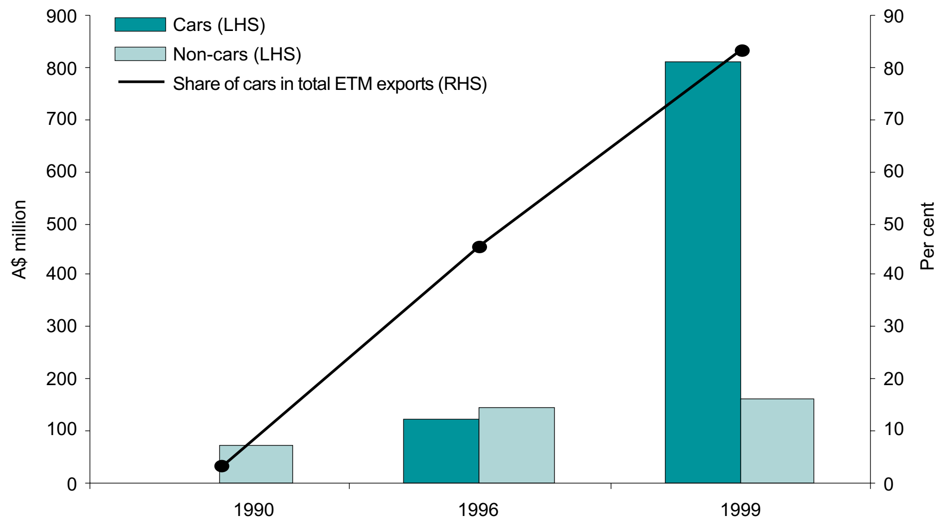
Car Exports

During this period, cars' share of ETM exports to the Gulf economies rose from below 2 per cent to over 80 per cent (Figure 2.7). Australian Toyota and General Motors Holden plants are the dominant suppliers of this market, which expanded from A$124 million in 1996 to A$810 million in 1999. Saudi Arabia is emerging as the key market, followed by the UAE and Kuwait (Figure 2.8).

Figure 2.7

Cars Drive ETM Export Growth

Australian ETM Exports to the Gulf Region, 1990-99

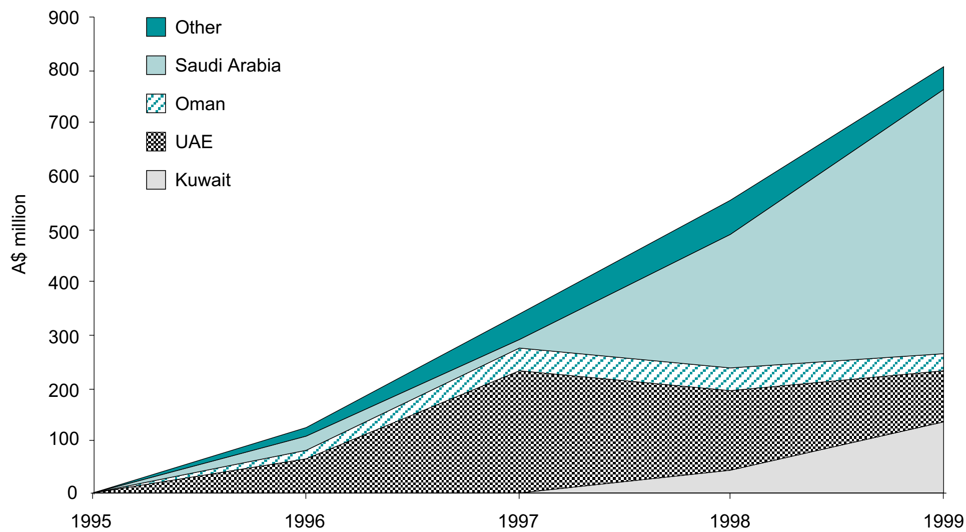


Source: Department of Foreign Affairs and Trade, 2000.

Figure 2.8

Saudi Market Dominates Car Exports

Exports of Australian Cars to the Gulf, 1995-99



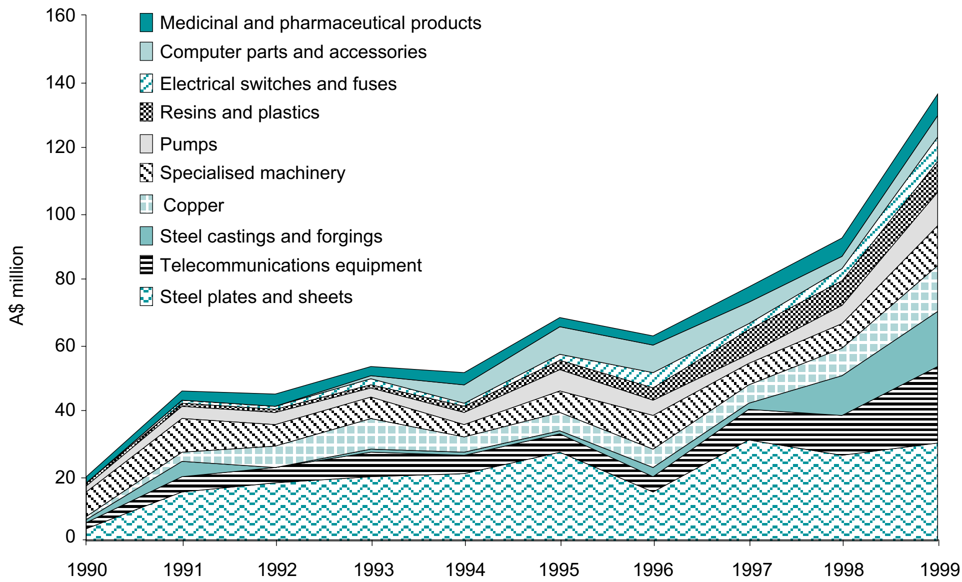
Note: Other comprises Bahrain, Qatar, Yemen and Iran.

Source: Department of Foreign Affairs and Trade, 2000.

Figure 2.9

Non-automotive ETMs Accelerate

Top Ten Australian Non-automotive ETMs to the Gulf Region, 1990-99



Source: Department of Foreign Affairs and Trade, 2000.

Other ETMs

In 1999, the main non-automotive ETM exports included steel plates and sheets (A$30 million), telecommunications equipment (A$23 million), steel castings and forgings (A$17 million) and copper (A$14 million) (Figure 2.9). Growth averaged 8 per cent between 1990 and 1997, but despite weak oil prices accelerated to 15 per cent in 1998 and 1999.

Simply Transformed Manufactures

The export value of simply transformed manufactures, STMs, declined from A$136 million (65 per cent of manufactured exports) in 1990 to A$56 million (5 per cent of manufactured exports) in 1999. This was largely because a previously large iron export line to Iran ceased. The remaining major STMs performed erratically, with declining pig iron exports and growing inorganic chemical exports the only consistent pattern (Figure 2.10).

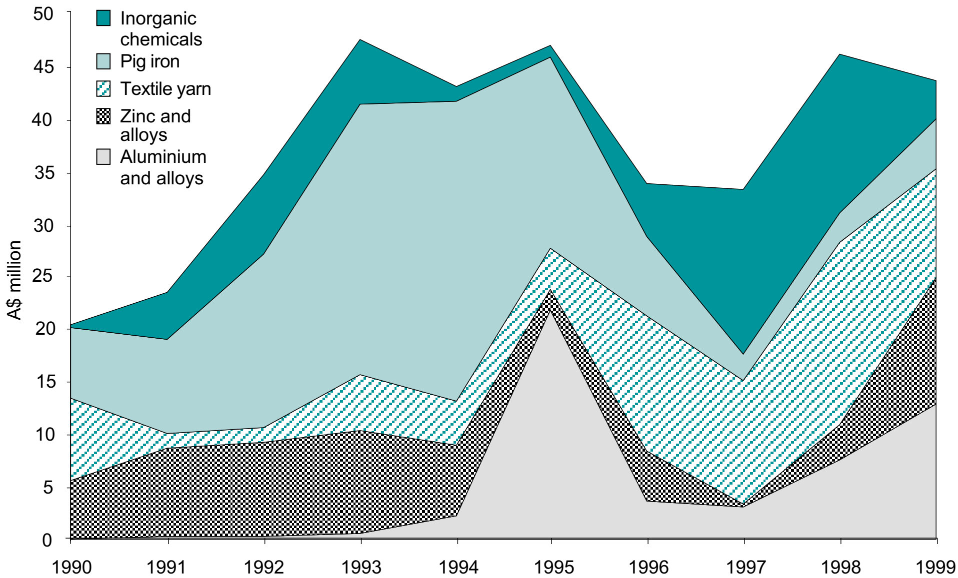
PRIMARY PRODUCTS

The great bulk of primary exports to the Gulf, including wheat, sugar and alumina, are listed as confidential items, to protect commercially confidential information of large sole suppliers.

Figure 2.10

Exports of Inorganic Chemicals Grow

Composition of Major Australian STM Exports to the Gulf Region, 1990-99



Source: Department of Foreign Affairs and Trade, 2000.

Agricultural Products

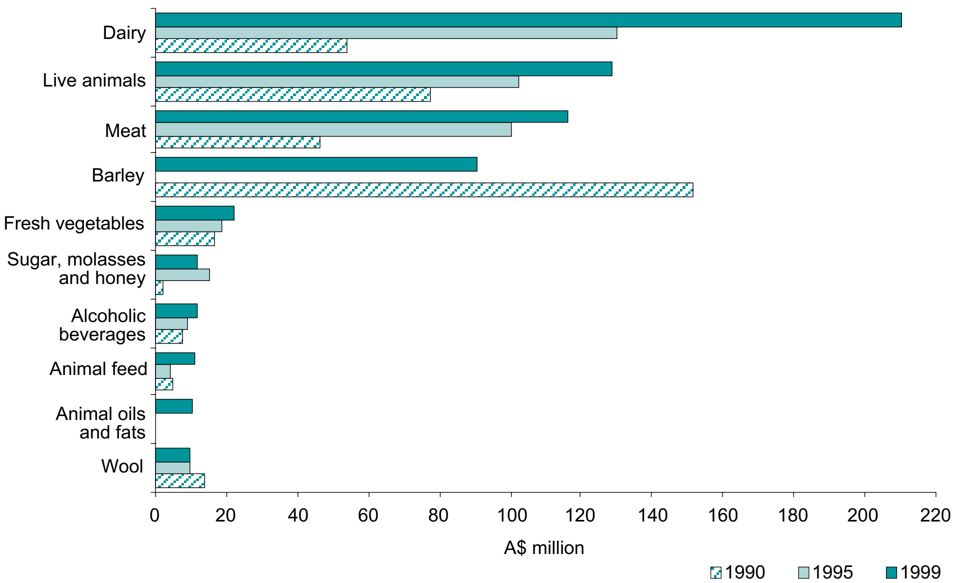
Between 1995 and 1999, non-confidential agricultural exports performed well, growing 13 per cent per year to A$692 million. Dairy products, live animals and meat were among the fastest growing non-confidential exports (Figure 2.11). Confidential agricultural exports, largely wheat and sugar still dominate Gulf trade and are growing well. In 1998-99, wheat exports by AWB Limited (formally the Australian Wheat Board) to the Gulf reached A$1.1 billion or 30 per cent of Australia's wheat exports to the world, with tonnages up almost fourfold on 1994-95 levels.

Sugar exports to the region also are significant. Queensland Sugar Corporation, QSC, undertakes most of this trade and supplies about 20 per cent of the world raw sugar market, making it one of the world's largest sugar exporters. In 1999-2000, it sold 168 000 tons of sugar to Iran and 208 000 tons to Saudi Arabia, representing 19 per cent and 40 per cent respectively of these nations' sugar imports (Queensland Sugar Corporation, 2000).

Figure 2.11

Agricultural Commodity Exports Growing Well

Australia's Major Non-confidential Agricultural Commodity Exports to the Gulf Region, 1990-99



Note: No barley exports to the Gulf region were recorded in 1995 and animal oils and fats were not exported in 1990 or 1995.

Source: Department of Foreign Affairs and Trade, 2000.

Bulk Mineral Exports

Alumina is the major bulk mineral export to the Gulf; exports to Bahrain and Dubai are worth between A$400 million and A$600 million per year and growing rapidly. Bahrain alone accounts for 11 per cent of Western Australia's alumina exports, with Western Australia Bahrain's sole supplier.[2] Similarly, Dubai Aluminium, Dubal, consumes 60 000 tonnes of alumina every three weeks from Alcoa's refinery at Kwinana, Western Australia (Department of Minerals and Energy Western Australia, 2000). The other significant bulk mineral export is coking coal, with exports to Iran of A$48 million in 1999.

2 Western Australia's four alumina refineries are owned by Alcoa at Kwinana, Pinjarra and Wagerup, and by Worsley Alumina near Collie (Department of Minerals and Energy Western Australia, 2000).

AUSTRALIAN EXPORT OPPORTUNITIES

Opportunities for Australian goods and service exporters in Gulf markets are wide, encompassing traditional and higher value added agricultural products, a rapidly broadening range of ETMs and expanding services exports, including tourism and education. Furthermore, many Australian direct investments in the Gulf are drawing in new Australian goods and services exports.

Agricultural Exports

Throughout the Gulf, environmental, fiscal and demographic pressures drive expanding opportunities for agricultural exports, like wheat, sugar, live sheep, frozen meat, and fruit and vegetables. Much of the region's agriculture is unsustainable; renewable per capita water reserves are falling rapidly, and agriculture demands 91 per cent of water withdrawals in Saudi Arabia, 80 per cent in the UAE and 94 per cent in Oman. (See Chapter 4 - *Foreign Investment*.) In addition, the growing fiscal cost of subsidising agricultural production via input and direct subsidies strains budgets, deepening structural deficits. In the short term, high oil prices may reduce fiscal pressures, but in the medium to longer term, pressing social and economic infrastructure demands on stretched budgets should drive the continuing reform of wasteful agricultural support policies.

Saudi Arabia provides the largest agricultural export opportunities for Australia. Since 1992, agricultural subsidy reforms reduced Saudi grain production from 4.8 million tonnes to 1.9 million tonnes in 1996, and the country switched from being a net exporter to a net importer of US$5 billion of agricultural products (Gulf Cooperation Council, 1999; and *Middle East Economic Digest*, 28 January 2000, p.8). Australia supplies around 5 per cent of these agricultural imports (Fisher, 2000a).

Opportunities for agricultural supplies and services also are significant. For example, in early 2000, Perth based Food Equipment of Australia installed and commissioned an abattoir in Saudi Arabia (Fisher, 2000a); Smorgon Cyclone has built large stock pens for holding imported live animals; and Austanz International has installed and is maintaining major irrigation systems (Bunton, 2000; and Giller, 2000).

Factors Driving Agricultural Export Growth

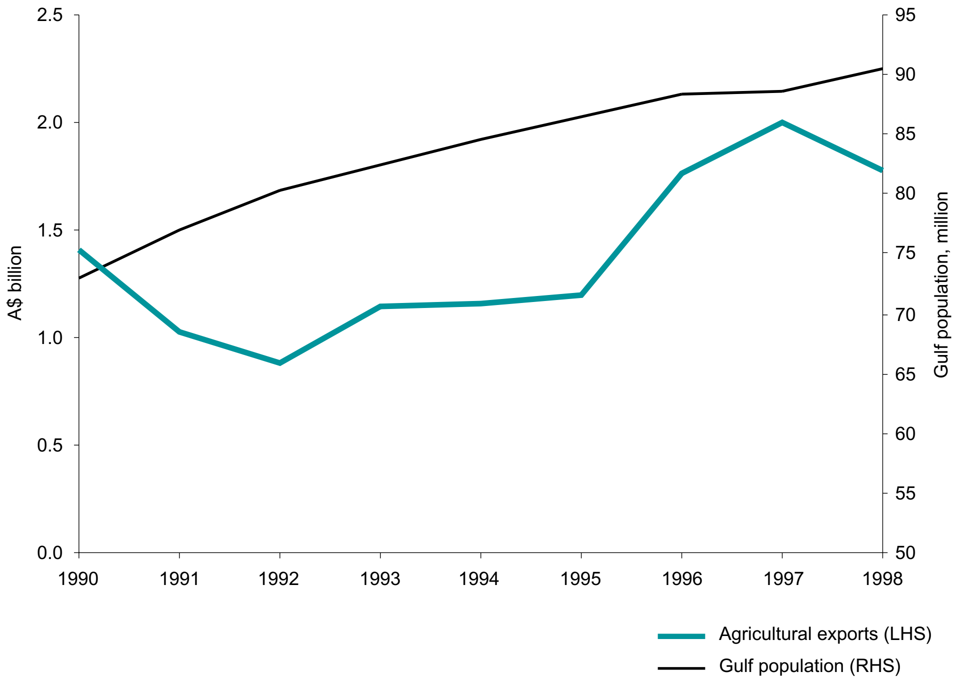
Both supply and demand factors drive growth in agricultural exports. On the supply side, as a leading agricultural exporter, Australia is a reliable, cost competitive, customer focused, long term supplier of bulk agricultural commodities.[3] On the demand side, rapid population growth, which underpinned growing demand for Australian primary products in the 1990s should continue into the next decade and beyond (Figure 2.12). Moderate growth in Gulf Cooperation Council, GCC, economies' per capita income, from US$8 171 in 1990 to US$9 262 in 1997, also sustains demand. Further, in 2000 and 2001, higher oil prices should spur increased demand, particularly from Iran.

[3] For example, while Australia produces only 3 per cent of the world's total wheat production, it accounts for 17 to 20 per cent of the world's exports.

Figure 2.12

More Mouths to Feed

Australian Agricultural Exports to the Gulf and Population Growth, 1990-98



Note: Population data for Iran are from International Monetary Fund, 2000.

Source: Department of Foreign Affairs and Trade, 2000; Gulf Cooperation Council, 1999; and International Monetary Fund, 2000.

Wheat

Prospects are good for expanding wheat sales. Population growth will continue to drive strong demand, with product requirements changing due to young consumers' growing importance and increasing affluence. A push towards trade and overall economic reform also may facilitate greater trade with Australia.

RISING DEMAND FOR AUSTRALIAN WHEAT: AWB LIMITED SALES TO THE GULF

AWB Limited is Australia's sole bulk wheat exporter.[4] It began exporting to the Gulf in 1942 and maintains a strong market position. It values its strong relationship with the Gulf economies.

The Gulf wheat market is largely shared between Australia, Canada and Argentina, although the United States has made inroads via subsidised sales. In 1998-99, Australia's 4.7 million tonnes of wheat exports to the Gulf states represented around 30 per cent of total Australian wheat exports, and was worth A$1.1 billion. Depending on climatic conditions, AWB Limited often is the largest Australian exporter to many Gulf economies. In 1998-99, AWB Limited sold 1.7 million tonnes of wheat to Iran, 1.4 million tonnes to Iraq, 700 000 tonnes to Yemen, 220 000 tonnes to Kuwait, 248 000 tonnes to Oman, 620 000 tonnes to the UAE, 21 000 tonnes to Bahrain and 61 000 tonnes to Qatar.

Source: AWB Limited, 2000.

Sugar

Population pressures, and growth of processed food industries also should expand Australia's substantial raw sugar export opportunities.

QSC'S ROAD TO EXPORT SUCCESS IN IRAN

QSC began selling raw sugar to Iran in 1996. Previously, the Iranian Government Trading Corporation purchased sugar via tender, on a cargo-by-cargo basis on terms QSC found unacceptable. After extensive negotiations, QSC made an initial sale. Sales volumes grew as the relationship developed, and the Government Trading Corporation recognised the foreign exchange savings and employment benefits of importing raw sugar instead of refined sugar. QSC now is a major supplier of bulk raw sugar to Iran and anticipates sales should continue to grow.

Source: Queensland Sugar Corporation, 2000.

Live Sheep Exports

From 1990 to 1999, while live sheep exports to Gulf economies, mainly the UAE and Kuwait, expanded from A$62 million to A$130 million exports to Saudi Arabia ceased. Exports had reached three million sheep per year, but encountered problems due to sheep quality and some rejected shipments which created animal welfare problems. Now, a strict quality assurance program is in place with Saudi Arabia, and in 2000, four trial shipments of around 65 000 sheep have been successful.[5] Should the trade resume on a fully commercial basis, export volumes could reach one million sheep per year.

---

4 AWB Limited has a statutory monopoly on bulk wheat exports due to the 'single desk policy'. This policy currently is under review.

5 Key elements of this quality assurance program include ensuring sheep are vaccinated twice against scabby mouth, having a vet on board the ship and making Saudi Arabia the first port of call. Three more trial shipments are planned for the remainder of 2000.

Meat Exports

Exporters using the strong air links and handling infrastructure of Emirates Airlines and Gulf Air could open up new chilled sheep-meat markets. Already chilled sheep-meat is shipped to Dubai, Abu Dhabi, Doha in Qatar and Muscat in Oman. Efforts to establish markets for higher value boned meat could further increase the value of this trade. The provision of non-stop flights from Australia from 2003 also will boost trade, as meat exports then will not have to compete for space with high value computer parts and European bound freight currently loaded in Singapore.

Fruit and Vegetables

Fruit and vegetable exports to the Gulf economies grew from A$18 million in 1995 to A$22 million in 1999; due partly to improved air links since 1996, and show good growth prospects. Australian company, Pardy and Sons, has a longstanding market presence through exporting fresh fruit and vegetables to supermarkets and market agents in Kuwait, Dubai, Abu Dhabi, Bahrain and Muscat. Around 60 per cent of its business by value is air freighted, with most exports during the Australian summer (Pardy, 2000). While competition from South Africa and high yielding South East Asian cargoes loaded in Singapore is fierce, direct air links from 2003 also may help in expanding the high value end of this trade.

Processed Food

The fiscal, demographic and water supply pressures likely to stimulate agricultural imports also should increase opportunities for processed food exports. The markets for food processing inputs also should remain vibrant due to economic diversification.

Convenience Foods

With 30 per cent of the GCC's population aged between 11 and 20, opportunities exist to service a rapidly growing snack food industry (Canadian Business Development International, 1997; and Gulf Cooperation Council, 1999).[6] As this youthful population moves into its twenties, demand for convenience foods also should accelerate rapidly. Higher value added prepared meats, for home cooking, uncooked products for small supermarket based bakeries and packaged beverages are potential niche exports for these relatively high income markets (Giller, 2000).

[6] This figure on the percentage of the population aged between 11 and 20 excludes Kuwait due to lack of data.

BERRI: PRESENTATION THE KEY

Berri Limited started exporting to the Middle East in 1997; now exports exceed A$1 million. Initial test marketing in Bahrain quickly revealed locally made Tetrapaks (foil lined cartons) undercut Australian manufactured juice products by 30 to 50 per cent. Consequently, Berri focused on product formulations and packaging styles not produced in the region. Its most successful product range is juice in polyethylene (or PET) plastic bottles; most competing products are foil lined boxes or pouches. Competing imported plastic products are significantly higher in price. While local competition from plastic bottles is expected soon, Berri is developing strategies to remain competitive and expand sales.

Source: Giller, 2000.

Dairy Products

The 66 per cent growth in dairy products exports to the Gulf economies from 1995 to 1999 reflects the strong opportunities in this young market. A major dairy goods exporter to the Middle East is Bonlac, which has extensive experience selling food processing ingredients and some consumer products in the region.[7] Bonlac emphasises quality control and successfully capitalises on Australia's clean, green image.

Inputs for Domestic Food Processing Industries

The growing snack and convenience food sector and diversifying economies provide opportunities to supply raw materials to rapidly expanding domestic food processing industries. For example, more than 400 Saudi factories produce around US$3 billion worth of processed food products annually. These factories need around US$1 billion in raw materials, intermediate ingredients, concentrates and bases; 75 per cent of these inputs are imported (Austrade, 2000a).

Bulk Minerals and Metals

The Gulf economies' competitiveness in energy intensive industry, gas from potential new pipeline projects like Dolphin, and Gulf governments' desire to further develop heavy industry to diversify economic activity all should create opportunities to expand Australia's minerals and metals trade.

Alumina

The success of Dubai Aluminium, Dubal, and the Aluminium Company of Bahrain, ALBA, the planned expansion of the downstream aluminium industry in areas such as foil rolling, and long term contracts like the recent A$1.4 billion deal to supply Dubal with alumina feedstock for the next eight years, all should ensure this trade continues to flourish (Vaile, 2000b; and Business Monitor International, 2000a). A proposed export oriented aluminium smelter in Oman could create further demand. Exports also may rise if the 6 per cent EU duty on primary aluminium exports from Gulf economies is removed and if a planned US$1 billion expansion at ALBA goes ahead (Business Monitor International, 2000a).

[7] Bonlac's sales to the Middle East and Africa are almost US$100 million per year. All orders are organised and serviced from Dubai.

Other Mineral and Metal Exports

If proposed major gas pipeline projects proceed, then integrated steel mills and electric arc furnace plants could use this cheap energy source. This, in turn, could generate demand for Australian iron ore and hot briquetted iron pellets.

Elaborately Transformed Manufactures

In 2000, high oil prices enhance opportunities to expand Australian ETM exports and diversify beyond car exports. Most Australian produced manufactures, which are competitive in Australia (without tariff protection), are likely to be competitive in the Gulf, provided tariffs are not prohibitive.

Cars

Australia's car exports to the Gulf have grown exponentially since 1996, mainly because:

- Australian produced cars suit the Gulf region, they perform well during long distance travel on often substandard roads, and have very good air conditioning and dust sealing
- restructuring of the Australian car industry since the late 1980s has improved production quality and reliability, convincing Australian car manufacturers' parent companies they can deliver on price, quality and reliability, despite smaller production volumes.

As car manufacturing is multinational, and supply decisions are centralised in parent company headquarters, future prospects for Australian cars' access to Gulf markets are somewhat uncertain; however, their success to date should boost their prospects.

CAR EXPORTS TO THE GULF SOAR

Australian-made left hand drive Toyota Camrys and GMH Commodores and Statesmans, re-badged as Chevrolet Luminas and Caprices, are very popular in the Gulf. In 1999, Toyota Australia shipped 23 000 cars to Saudi Arabia, up 40 per cent on 1998, with the Camry now the largest selling car in Saudi Arabia. In addition, both Toyota and GMH Australia have made big inroads in the UAE market. For example, Dubai Taxi Company runs a fleet of 2 000 Camrys and has ordered replacement vehicles worth A$21 million.

Source: Vaile, 2000a.

Construction Materials

Australian exports of construction materials to the Gulf are expanding rapidly, at 9 per cent per year in the 1990s, reaching A$70 million in 1999. Major export items include rolled metal, aluminium alloys and copper pipes. Driving these exports is Australian investment in local distribution and processing plants, like Lionweld Kennedy in Dubai and Clipsal's factory in Sharjah, and BHP's sales office and Boral Plasterboard's distribution centre in Dubai. In addition, Australia's growing construction sector success creates export opportunities for Australian construction material suppliers, as many Australian construction companies specify Australian subcontractors and materials. For example, Multiplex uses Australian crane and concrete forming companies (Deacon, 2000).

Telecommunications Equipment

Continued growth in the region's telecommunications markets and WTO driven liberalisation in Oman should improve prospects for Australian telecommunications exports, which grew from A$6 million in 1995 to A$23 million in 1999. Consequently, telecommunications equipment is a rapidly growing air cargo (Emirates SkyCargo, 2000).

Pharmaceuticals

With the Gulf's improving drug patent protection, opportunities to increase Australia's medicinal and pharmaceutical product exports should expand. Australian exports of medicinal and pharmaceutical products to the Gulf doubled to A$6 million in 1999 from A$3 million in 1996. They also are a fast growing air freight item (Emirates SkyCargo, 2000).

EMIRATES AIR FREIGHT EXPORTS EXPAND RAPIDLY

Emirates Airlines has flown daily from Melbourne to Dubai since October 1998, and has flown four times per week from Sydney to Dubai since 27 March 2000. Connections onward are available throughout the Gulf region. In 1999, the volume of Emirates air freight from Australia to Dubai grew 19 per cent. Major end markets include the UAE, Kuwait, Lebanon, Qatar and Saudi Arabia, with exports originating from Adelaide, Brisbane, Melbourne and Sydney.

Export cargo consists of both perishable and manufactured goods. Chilled meat and produce is regularly air freighted to Dubai, Abu Dhabi, Doha, Riyadh and Kuwait. Manufactures include car parts, communications equipment, computer parts, machinery and pharmaceuticals. Exports of perishables, telecommunication equipment and pharmaceuticals are growing fastest.

Source: Emirates SkyCargo, 2000.

Defence Related Equipment

Defence equipment is another area of ETM export opportunity, with Australia's key strengths lying in infrastructure, service and technology support. Major Australian defence sales include military vehicles by Tenix Defence Systems to Kuwait (A$20 million), military explosive warehouses to the UAE by Spontech (A$45 million) and targeting systems to various countries by Australian Defence Industries (A$1.4 million).

The UAE again is a hub for opportunities. In March 2001, it will hold the world's biggest defence exhibition, IDEX 2001, in Abu Dhabi. The Australian Middle East Defence Export Council will coordinate Australia's representation at this event. Austrade and the Department of Defence also are assisting market penetration.

OPPORTUNITIES UNDER DEFENCE OFFSET PROGRAMS

Participation in offset programs is another defence related opportunity. Offset programs are attached to most major Saudi, Kuwaiti and Emirati defence purchases. Designed to assist diversification, offsets require the defence contractor to re-invest a proportion of the contract value in non-defence areas.

One project offering opportunities is the Al Yamamah deal to supply a range of defence equipment to Saudi Arabia. British Aerospace is the prime contractor. Austrade has an agreement with British Aerospace Australia to identify Australian companies able to enter into significant joint ventures in Saudi Arabia, then British Aerospace can help identify an appropriate Saudi partner to progress the proposal through the Saudi Offsets Committee and secure finance. Incentives under the program include import duty exemptions, tariff free raw material access, ten year tax holidays, and low cost utilities and rents.

Source: Austrade, 2000b.

Other ETMs

In 2000, high oil prices offer opportunities to expand the value and range of ETMs, with annual growth of 20 per cent possible, based on past relationships between oil prices and import values. A diverse range of Australian ETMs, from taxi meters to fast ferries, have found ready markets in the Gulf in recent years.[8] Other areas of opportunity include:

- food processing machinery for Saudi Arabia's large food processing industry
- accessories and aftermarket products for four wheel drive vehicles, which are extremely popular.

Service Exports

Given the GCC economies' high per capita incomes, services provide a major export opportunity. The most prospective areas include education, tourism, construction, infrastructure, finance and business services.

Education

To augment employment localisation drives, most regional governments are spending large sums on education and training. Each year, regional governments offer around 50 000 scholarships for residents to study abroad (Al Falasi, 2000). However, most study in the United States and Europe. With only 376 Gulf students in Australia in 1999, Australia clearly could expand its market share (Department of Education, Training and Youth Affairs, 2000). Most Gulf students who come to study in Australia are from the UAE and Iran; the large Saudi market is virtually untapped.[9]

---

8 Between 1990 and 1997, Australian exports of ships and boats to the Gulf averaged A$18 million per year, although this dropped to A$1 million in 1998 and 1999 (Department of Foreign Affairs and Trade, 2000).

9 Numbers of Iranian students in Australia fell from 693 in 1998 to 138 in 1999 due to Iran's fiscal difficulties and persistent visa approval problems. UAE student numbers reached 191 in 1999, but only ten students came to Australia from Saudi Arabia (Department of Education, Training and Youth Affairs, 2000).

Factors boosting growth prospects include greatly improved transport links with direct flights to Dubai and Abu Dhabi, and growing awareness of Australia and its education system due to expanding tourism and promotion by Australian universities. The reciprocated presence of the UAE, Saudi and Iranian embassies in Australia also helps promote education exports. However, at this early stage of market development, Australian government promotional effort and institution level links need to be stronger. Student advisers with Australian tertiary experience could be based in Australia's embassies, and faster visa turnaround times also would help (Deacon, 2000).

THE UNIVERSITY OF MELBOURNE ENGAGES THE ARAB WORLD

The University of Melbourne has long held a world renowned collection of Qur'anic texts, and from the 1960s taught Arab and Islamic studies. It now is pursuing a broadly based strategy to engage with the Gulf economies. Along with Indonesian, Japanese and Chinese Studies, it designated Arab and Islamic Studies as a strategic pillar of the teaching and research program of the cross-disciplinary Melbourne Institute of Asian Languages and Studies, created in 1997.

Also in 1997, the university audited the Islamic responsiveness of its courses, services and administration. Subsequently, it established new prayer and meeting facilities, and appointed an Islamic Counsellor. In 1998, a high level university mission visited four GCC economies to explore new academic, research, cultural and business relationships with regional academic leaders.

Evidence of the university's growing interaction with GCC economies includes:

- collaborating with the Victorian Education Department to provide advice on the development of schools and teachers in the UAE, Oman and Saudi Arabia
- cooperating with Monash University to tailor professional postgraduate medical programs for GCC candidates
- growing numbers of undergraduate and postgraduate GCC students
- using the Internet to offer worldwide, the only Masters of Islamic Studies.

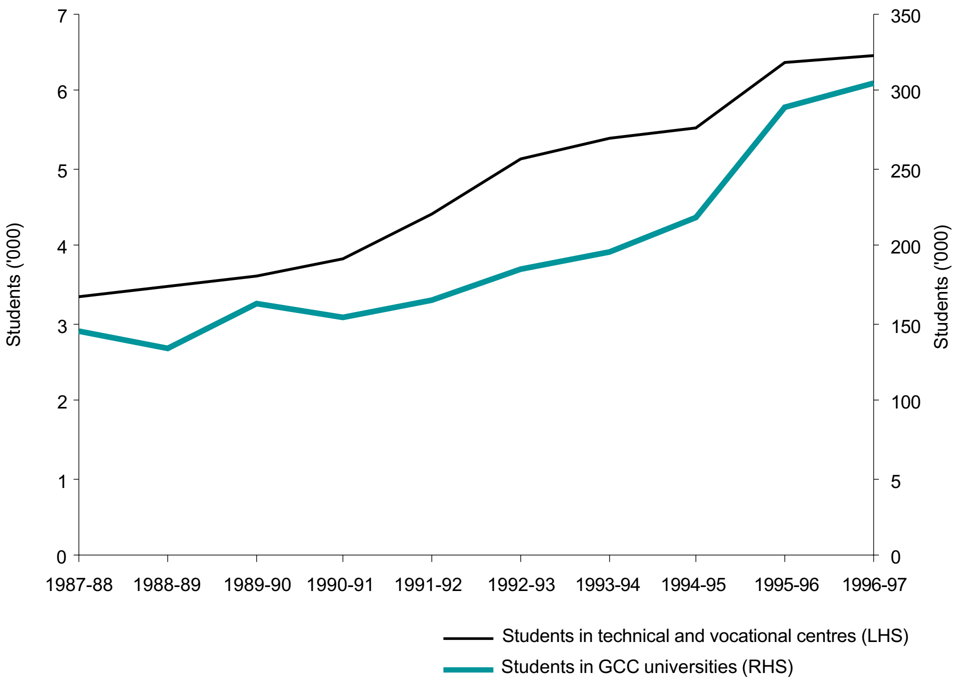
Source: Peacock, 2000.

As GCC economies' education systems grow, in-country educational services offer further opportunities. Expanding GCC university student numbers make the university sector a key area (Figure 2.13). Strategies include establishing Gulf campuses, as Wollongong University did with its Dubai campus, establishing Internet delivered degree programs as Melbourne University did, or obtaining contracts to teach particular courses. The rapidly growing technical education sector also offers opportunities (Figure 2.13). While relatively small now, it is likely to expand considerably with the employment localisation drive. Australia's strong reputation for technical education positions it to tap this growth (Deacon, 2000).

Figure 2.13

Expanding Gulf Education Market

Students at GCC Universities and Technical and Vocational Education Sectors, Thousands



Note: Data on GCC universities for 1996-97 exclude Qatar and female students in Bahrain.

Source: Gulf Cooperation Council, 1999.

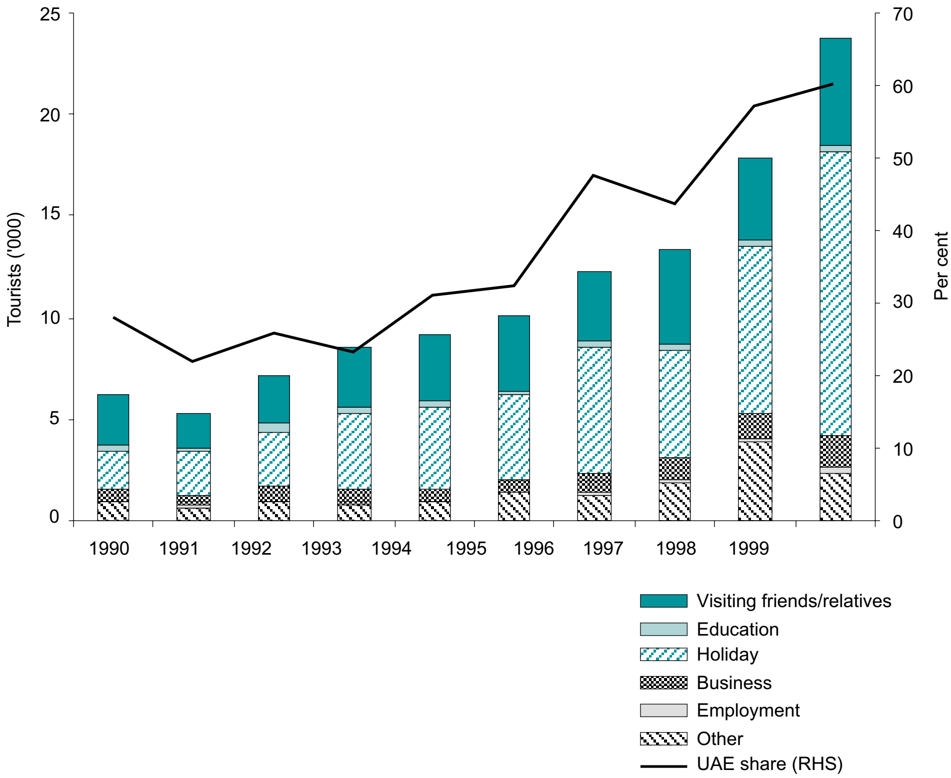
Tourism

Tourism from the Gulf economies grew rapidly throughout the 1990s, particularly after 1996, as direct air links expanded (Figure 2.14). This growth should continue with Emirates commencing flights from Sydney in March 2000, Gulf Air adding two flights from Abu Dhabi to Sydney in July 2000, and Emirates eventually planning to move to daily Sydney flights and providing additional services from other capital cities. The growing tourist market, with around 24 000 arrivals in 1999, offers opportunities to target services at Arab tourists and high income expatriates.

Figure 2.14

Tourism from the Gulf Is Growing Rapidly

Inbound Gulf Tourists to Australia by Reason for Journey, and the UAE's Share



Source: Australian Bureau of Statistics, 2000a.

Construction Services

Population growth, gas developments, tourism growth and technological change are likely to generate further opportunities for Australian construction companies, which already have a strong presence. As today's adolescents move into their twenties, demand for housing and urban infrastructure, such as electricity, roads and fresh water, will grow rapidly. Government initiatives to encourage private sector infrastructure provision in Oman, the UAE, Saudi Arabia and Kuwait also should increase infrastructure construction activity. (See Chapter 4 - *Foreign Investment*.) Increased activity also should flow from major planned projects exploiting Saudi, Qatari and Omani gas resources, including gas pipelines and liquefied natural gas, LNG, plants. Continuing tourism growth also should stimulate construction activity, particularly in Dubai where nine five-star and three four-star hotels are either approved or under construction, and in Oman which is encouraging international hotel construction (Austrade, 2000a).

AUSTRALIA'S GROWING CONSTRUCTION SERVICES PRESENCE

Several Australian construction firms have won major contracts in Gulf economies, particularly the UAE, and are well placed to access future opportunities. Australian construction services companies with UAE offices include:

- Multiplex (major building and infrastructure construction provider)
- Meinhardt and Snowy Mountains Engineering Corporation (engineering consultants)
- Bonacci Winard (structural engineers)
- Crone and Woods Bagot (architects)
- Australian Prestressing Services and Northern Territory Prestressing (suppliers of prestressed concrete)
- Worley Engineering and Clough Engineering (oil and gas engineers).

The Commonwealth Scientific and Industrial Research Organisation, which tests building materials, and the Building Control Commission of Victoria, which provides draft building regulations for Dubai, provide services via temporary offices or from Australia.

Source: Deacon, 2000.

By applying their leading edge in new energy, labour or time saving and environmentally friendly construction technologies, Australian companies can generate opportunities. Already Australian firms doing this include two specialist prestressed concrete companies pioneering this sector in the UAE, a company with a new technique (jumpforming) for holding setting concrete in high rise buildings and Favell Favco which developed a unique climbing crane for very high buildings (Deacon, 2000).[10]

LIONWELD KENNEDY: A NEW AUSTRALIAN PRESENCE

In 1998, Melbourne based industrial group, Pacifica Group Limited, acquired Lionweld Kennedy, a UK company which exported to Dubai. As Pacifica's philosophy is to build flexible plants close to its customer base, it has established a full manufacturing capability, including fabrication, in a joint venture with the Dubai Transport Company to produce customised steel gratings and handrails. At this stage, it mainly focuses production on Dubai, but ultimately, it may serve other regional markets.

Source: Pacifica Group Limited, 2000.

10 The prestressing companies are Australian Prestressing Services and Northern Territory Prestressing.

REACHING FOR THE SKY: MULTIPLEX IN DUBAI

Nasa Multiplex, a partnership between Multiplex Australia and His Excellency Naser Abdulla Lootah's Nasa group of companies, built the Emirates Towers office complex in Dubai, the tallest building in the Middle East and Europe. It completed the project ahead of time and under budget.

Multiplex now is pursuing other regional construction projects. It finds its Australian business culture valuable, particularly its emphasis on innovation and quality. Multiplex works with, and encourages, Australian business ventures in the Gulf. Multiplex also uses many Australian materials and subcontractors on its buildings, including an Australian concrete forming company and Favell Favco's climbing crane, which it used on the Emirates Towers office complex.

Multiplex has pursued work in the Middle East for ten years, and has established itself as a major force in the UAE; it is confident of further growth.

Source: Multiplex, 2000.

Financial Services

Growing infrastructure requirements, including privately provided infrastructure, increasingly liberal foreign investment regimes and major gas related projects generate significant project financing and investment banking opportunities in the Gulf; ANZ Investment Bank is a major player. As required financing volumes increase, the demand for new financial products will grow. Funding diversity will become increasingly important due to the limited investor appeal of any one debt instrument from a particular part of the world (Knox, 2000).

Demand for mortgage products also is likely to grow as the Gulf's young populations purchase their own homes. For example, the traditional Saudi practice of purchasing a home from savings became less viable in the 1990s, as per capita incomes fell. This could create opportunities for Australian financial institutions working in joint ventures with established financial institutions to create markets in mortgage products, including securitised products.

CAPITALISING ON REGIONAL GROWTH: ANZ INVESTMENT BANK

ANZ Investment Bank, the investment banking arm of the Australia and New Zealand Banking Group Limited, offers a full range of investment banking services in the region. It is separate from ANZ Grindlays, the retail banking network purchased from Grindlays in 1984, which ANZ sold to Standard Chartered in early 2000.

Through its Bahrain office, ANZ Investment Bank offers project, corporate, trade, export, Islamic and transport finance. The office services the GCC economies as well as Iran, Jordan, Egypt, and Turkey. Its sectoral expertise covers oil, gas and petrochemicals, power, water, natural resources, media, telecommunications, infrastructure and industrial transport.

ANZ Investment Bank played a key role in financing several major recent petrochemical projects. In Qatar, it was a lead arranger of a US$750 million syndicated loan facility for the Q-Chem project for Qatar General Petroleum Corporation. In Saudi Arabia, it acted as an arranger of US$4.8 billion of financing for four major projects Saudi Arabian Basic Industries Corporation developed in joint ventures with Shell, Mobil and Exxon.[11] In the power and utilities sector, ANZ Investment Bank also has advised international developers on bids for major infrastructure projects in Jordan, Kuwait, Oman, Saudi Arabia and the UAE.

ANZ Investment Bank expects large scale financing opportunities in the region to expand. As governments accelerate privatisation initiatives, significant transactions are occurring in Saudi Arabia, Oman and the UAE, with Iran, Egypt and Turkey also offering exciting medium term prospects.

Source: ANZ Investment Bank, 2000.

Business Services

Computer hardware and software use is expanding rapidly, but regional economies have limited local expertise; this generates considerable opportunities for trade and investment in IT related services. Peachtree, an Australian software and consultancy firm with a Dubai office, recently won a contract with Saudi ARAMCO, the world's largest oil company, to provide human resource management services (*The Australian*, 4 April 2000, p. 39).[12]

---

[11] These projects are the Saudi Petrochemical Company, Sadaf, expansion, the Saudi Yanbu Petrochemical Company, Yanpet, expansion, the Al-Jubail Petrochemical Company, Kemya, expansion and the Saudi Iron and Steel Company, Hadeed.

[12] The widespread use of expatriate managers and professional personnel also creates considerable opportunities for human relations firms. As these usually require local offices, they are discussed in the 'Opportunities for Australian Investment - Business Services' section.

AUSTRALIA'S DIRECT INVESTMENT OPPORTUNIES

Australia's direct investment presence in the Gulf is growing rapidly. Between 1997 and 2000, the number of Australian firms represented in the UAE rose from around 30 to 70 (Austrade, 2000c). Disaggregated official data on Australian investment in the Gulf do not exist.[13] However, with the cost of establishing a three person office averaging about A$500 000, between 1997 and 2000, new Australian direct investment in the UAE alone could have exceeded A$20 million. Australian companies with the largest UAE presence include Clipsal, Lionweld Kennedy, Boral, Multiplex and Greater Union.

Outside the UAE, most Australian investment is in oil and gas, with BHP Petroleum, Woodside and Novus Petroleum all active. (See Chapter 4 - *Foreign Investment*.) In addition, ANZ Investment Bank's regional operation is based in Bahrain, while three Australian companies have significant joint ventures in Saudi Arabia:

- B&D Rollerdoor and Al Zamil make rollerdoors
- Enviroflow and Jamjoon provide health care
- McConnell Dowell is involved in oil and gas pipeline construction with Saudi ARAMCO.

Opportunities for Australian Investment

Demographics, economic reforms, non-oil diversification policies, government fiscal problems and new gas based developments drive opportunities for profitable Australian direct investment in the Gulf region. Key areas of opportunity include infrastructure, transport, construction, petroleum extraction, gas, mining, manufacturing, insurance and banking, tourism, leisure and business services.[14]

Infrastructure, Transport and Construction

Opportunities to invest in telecommunications, electricity and water supply service provision throughout the Gulf should expand in the next few years, as the private sector's role in infrastructure provision expands. (See Chapter 4 - *Foreign Investment*.) Unlike projects in major Asian markets, opportunities in Gulf markets usually are smaller and more manageable for many Australian companies. Moreover, in Oman and Abu Dhabi, where sound electricity regulatory frameworks are emerging, Australian utilities' experience with corporatisation and operation in competitive private markets and private infrastructure provision could yield important competitive advantages or make them valuable joint venture partners. Australian construction, distribution and maintenance experience in hot, difficult and remote terrains also is an advantage in Gulf economies.

Opportunities also are opening to invest in transport infrastructure and services to support intra-regional trade and passenger transport. Potential investment opportunities include fast ferry services,

[13] Official statistics on Australia's investment in individual Gulf economies are unavailable due to the small values involved. Investment in Gulf economies is included along with many other economies in an 'other Asia' category.

[14] Discussion of opportunities in infrastructure, petroleum, gas and mining sectors overlaps with Chapter 4 - *Foreign Investment*. However, as far as possible, Chapter 4 conveys more detailed information on these sectors, while this chapter focuses on the Australian presence and specific areas of Australian opportunity.

further port developments and railways. In Saudi Arabia, the World Bank is advising the Government on port infrastructure and feasibility of north-south and east-west rail links. Such projects will require multi-billion dollar private sector investment and create opportunities for foreign investment and know how (Fisher, 2000b). Growing trade flows also create opportunities to develop transport links between the Gulf and Central Asian republics, via Iran, which promotes its road and rail links as a landbridge and actively seeks investment in land transport infrastructure.

As discussed in the section on construction services, investment and growth prospects in the construction sector remain good, particularly given high oil prices in 2000, demographic trends and moves to greater openness and economic reform.

Petroleum Extraction

In Saudi Arabia, Qatar and Bahrain, upstream oil production is closed to foreign investment. Similar restrictions apply in Kuwait, although efforts are being made to allow foreign companies a role in developing the Northern oil fields. In the UAE, longstanding foreign leases effectively exclude new entrants. However, Oman, Yemen and Iran actively seek new investment in their upstream oil extraction sectors. (See Chapter 4 - *Foreign Investment.*)

Oman and Yemen may offer further attractive opportunities for Australian companies used to working viably in small, geologically complex fields major oil companies pass over. Potential opportunities are considerable in Iran, where much oil producing capacity is becoming obsolete. Since 1996, the Iranian Government has released 34 projects for tender under the buy-back system.[15] BHP Petroleum, Woodside Petroleum and numerous smaller firms, such as Novus Petroleum, seek to participate in the Iranian upstream oil and gas sectors.

However, two key disincentives constrain investors. Firstly, the US 1993 Iran Libya Sanctions Act imposes sanctions on companies investing more than US$20 million in Iran's oil and gas industry. Total already has obtained a waiver to proceed with its investment, while Elf Aquitaine and Shell are proceeding with large investments, despite not having waivers.

Secondly, the Iranian buy-back approach makes many projects unviable for international oil companies who generally work on longer time frames than its seven to nine year terms. Buy-backs also are difficult to finance as they are contracts not assets, so on balance sheets, they are unfunded liabilities, therefore attracting premium financing rates.

Gas

Australian companies are pursuing gas extraction and subcontracting opportunities in Iran, Oman and Bahrain. BHP Petroleum is one of eight foreign companies involved in developing Iran's gas industry master plan (Business Monitor International, 2000b).

Overall, prospects for increased involvement in the gas sector are stronger than in oil, as in-country expertise in this relatively new industry is less developed, and vested interests are less powerful.

---

[15] Buy-backs are a foreign investment mechanism whereby the investor contracts to develop a project, and is paid an agreed sum in dollar terms, via revenue from the project.

Mining

Although significant regulatory reform is needed, future mining investment opportunities will be concentrated in Iran and Saudi Arabia. (See Chapter 4 - *Foreign Investment*.) Projects involving mineral processing are more likely to attract official support than those with minimal processing.

Manufacturing

Australia has a small, diverse manufacturing presence in the Gulf, including joint venture investments in Saudi Arabia and free trade zone investments in the UAE. The two main manufacturing investment opportunities for Australian companies in the Gulf are:

- manufacturing operations in free trade zones, particularly in the UAE; Australian companies including Clipsal, Kempe Engineering, Hunter Watertech, Worley Engineering and Orica Explosives already have successful investments in these zones. Key attractions include full foreign ownership, duty free status, income and company tax exemptions, and excellent transport links with European and Asian markets
- equity investments in aluminium, steel and petrochemical projects using gas from Dolphin and other major gas pipeline projects once they proceed.

Insurance and Banking

While GCC governments generally prohibit foreign insurance companies from writing premiums, some opportunities are emerging in health insurance.[16] Saudi Arabia is moving to private sector provision of health insurance, first for expatriates, then for Saudi citizens, and foreign companies will be able to provide coverage (Business Monitor International, 2000c).[17] This is highly significant, as medical insurance constitutes 18 per cent of Saudi insurance premiums, and medical insurance premiums grew 25 per cent in 1997, making them Saudi Arabia's most rapidly growing insurance business (US Department of State, 1999a). Kuwait introduced mandatory health insurance for expatriates in January 2000, and while foreigners cannot write insurance premiums, foreign companies can provide local companies with support and expertise (US Department of State, 1999b).

Prospects for investment and retail banking also are growing. Likely future liberalisation of foreign direct investment regimes should enhance these opportunities. Currently, ANZ's investment banking presence in Bahrain is Australia's main presence in this sector.

[16] A Saudi state owned cooperative is the only legal entity able to sell insurance, and the Kuwaiti Government bans foreign investment in insurance. Foreign insurance companies can establish a presence in the UAE, but the Government limits their business activities to offshore operations (US State Department, 1999a and 1999b).

[17] Health insurance for Saudi Arabia's six million expatriates will move to the private sector by the end of 2000; this initiative will be extended to Saudi citizens within three years (Business Monitor International, 2000b).

Tourism and Leisure

Significant opportunities to invest in the Gulf region's leisure and tourism sector are emerging. Dubai successfully markets itself as a regional centre for high value tourism based on shopping, western style entertainment, watersports and beach/desert activities; it attracted three million visitors in 1999 (Jeffreys, 2000, pp. 99-100). Oman is increasing its efforts to attract tourists with its beach holidays and ancient architecture, and actively seeks hotel investment; and Iran seeks to cooperate with western tourism wholesalers to develop historical and cultural tourism.[18]

Several Australian firms already are active in the sector. Rydges began managing a Dubai hotel in 1999, and is looking to increase its regional presence (Allen, 2000). Greater Union has cinemas in Dubai and Abu Dhabi via a joint venture, and an Australian firm operates the tourist ferry service on Dubai Creek. In April 2000, Australian consultancy firm, SAGRIC, signed an agreement with Iranian tourism authorities to help promote tourism to Iran and Australian investment in Iran's tourism sector.

IRANIAN TOURISM DEVELOPMENT: SAGRIC SHOWS THE WAY

Iran seeks foreign expertise to develop its tremendous tourism potential. Iran has contracted SAGRIC, a major Australian international project management and technology transfer company, to help promote Iran as a tourist destination. The agreement includes tourism training and planning, infrastructure development, and advice on marketing. The project originated in 1999 during Australia Iran Joint Ministerial Commission discussions.

In May 2000, SAGRIC organised for senior Iranian tourism officials to visit Australia to see the depth of Australian expertise available to assist Iran implement its Tourism Master Plan. In November 2000, a business mission of Australian tourism wholesalers, retailers, and media and construction industry representatives will visit Iran.

Success in assisting Iran's tourism development could generate opportunities for Australian companies to invest in Iran's tourism infrastructure and services sector.

Source: SAGRIC International Proprietary Limited, 2000.

Business Services

The need to upgrade computer hardware and software, and the continued demand for senior expatriates, drives opportunities to invest in business services, including information technology and recruitment. Melbourne based Independent Corporate Solutions has been in the Saudi market for four years and in the UAE for two years, placing over 100 senior executives (Moore, 2000). Moreover, Australian managed executive search companies, Inter Search and Morgan and Banks, have Dubai offices. Such firms are well placed to recruit the many Australian professionals and managers employed in the Gulf, who are respected for their flexibility and 'can do' approach (Crosthwaite, 2000).

[18] Saudi Arabia also has a large tourism industry revolving around the massive influxes of religious pilgrims.

GULF ECONOMIES' INVESTMENT IN AUSTRALIA

The Gulf region has exported huge volumes of capital since the 1973 oil shock, as oil revenues exceeded domestic investment opportunities and investors sought to keep surplus funds in safe financial centres. The entire Middle East currently has at least US$800 billion of private capital invested abroad, and the Gulf economies at least US$500 billion, including US$150 billion from the Abu Dhabi Investment Authority (Atkinson, 2000; and Jeffreys, 2000, pp. 43-44).[19] Most of this capital is invested in the United States, United Kingdom, Germany, France and Switzerland.

If Australia's share of this capital were in line with its share of world gross domestic product, it would have received about US$10 billion in investment from the Middle East, and around US$2 billion from Abu Dhabi Investment Company. However, as the Australian Bureau of Statistics only records Australia's total stock of investment from Gulf economies and a number of other economies in a residual 'other Asia' category at US$940 million, the potential to lift Australia's share of Gulf capital exports is significant.[20]

Increasing travel and tourism between Australia and the UAE should boost investment in Australian real estate, hotels, financial markets and service sectors. Already Gulf tourism to the Gold Coast is generating considerable investment interest, as families recognise Australia's relative price competitiveness and secure permanent accommodation for their traditional two to three month summer holidays (Gold Coast City Council, 2000).

The increasing tourist flows from the Gulf, and hence increased familiarity with Australia, also create opportunities to attract more Gulf investment in the agriculture and resources sectors, which in turn could help open new Gulf export opportunities. Already, investment is significant in the agriculture sector, including racehorse studs and a cheese factory.

AUSTRALIAN MERCHANDISE IMPORTS FROM THE GULF ECONOMIES

In 1999, Australia imported A$1.3 billion of merchandise from Gulf economies, representing 1.3 per cent of total imports. These imports are mostly petroleum related; crude and refined petroleum accounted for 69 per cent of total imports in 1999 (Figure 2.15). Saudi Arabia supplied 51 per cent and the UAE supplied 22 per cent of these imports.

Manufactured Imports

Gulf manufactured exports to Australia (excluding petroleum products) grew from A$32 million in 1990 to A$177 million in 1999, growing at an average of 26 per cent per year (Department of Foreign Affairs and Trade, 2000) (Figure 2.15). The large confidential imports were mainly petrochemicals. The most important other import is fertiliser (A$75.8 million); also important are sugar confectionery, perfume and cosmetics, glass and glassware, pottery, manufactures of base metals, motor cycles, lighting fixtures, musical instruments, clothing accessories and printed matter.

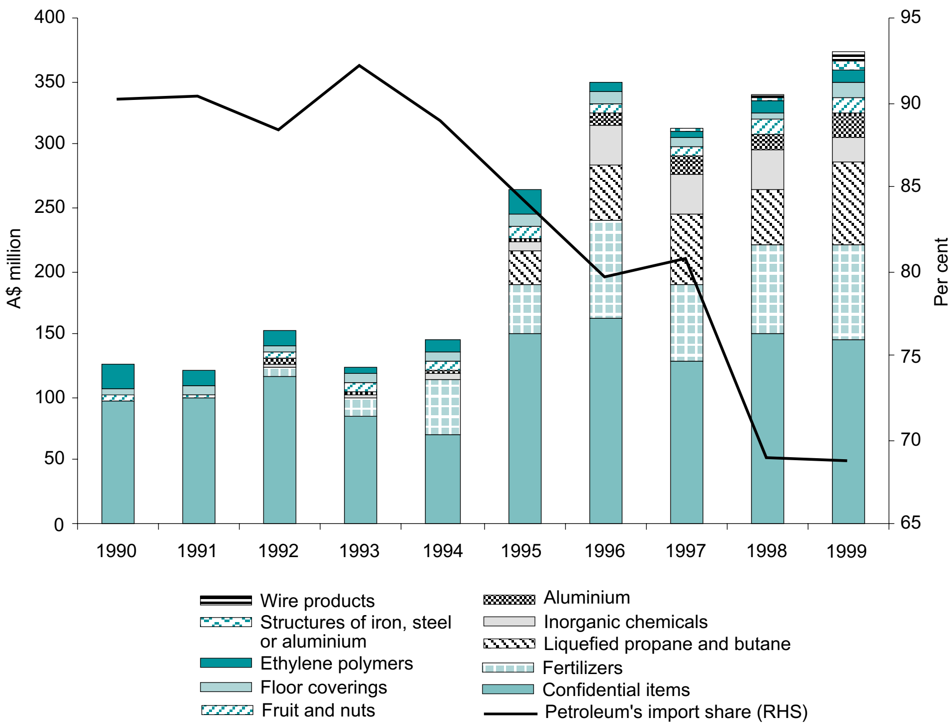
19 Abu Dhabi Investment Authority, ADIA, is the investment arm of the Abu Dhabi Government. It invests all surplus oil revenue after paying oil companies and funding general government expenditure.

20 This Australian Bureau of Statistics figure is converted to US dollars at A$1:US$0.60 (Australian Bureau of Statistics, 2000b).

Figure 2.15

Non-oil Imports from the Gulf Region Rising Slowly

Australia's Imports from the Arabian Peninsula and Iran, 1990-99



Source: Department of Foreign Affairs and Trade, 2000.

Constraints on Australian Imports from the Gulf

The main factor constraining Gulf imports is Australia's position as a net hydrocarbons exporter; imports therefore are restricted to specific types of crude oil for petroleum refining and refined products. Lack of price competitiveness for mass market products, inherent volume restrictions in Australia for niche products such as Persian carpets, musical instruments or dates, and limited trade promotion efforts in Australia constrain manufactured imports' growth.

AUSTRALIAN BUSINESS LINKS WITH THE GULF

Australian diplomatic and business links with the Gulf region are strong. In addition, Australians of Middle East origin can help in forming business links and provide valuable bilingual, bicultural employees and managers.

Diplomatic and Austrade Links

Australia maintains embassies in Saudi Arabia, the UAE, and Iran. The Australian Ambassador to Saudi Arabia also is accredited to Bahrain, Qatar, Oman, Kuwait and Yemen.[21] Saudi Arabia, the UAE and Iran all maintain Canberra embassies, and Kuwait maintains a Military Liaison Office. The Kuwaiti, Omani, and Qatari ambassadors to Japan are accredited to Australia.

Austrade has a Middle East and Indian Ocean regional base in Dubai, UAE and local offices in Abu Dhabi, UAE, Iran and Saudi Arabia. In addition, the Victorian Government has a business office in Dubai, while the South Australian Government has a representative employed on a contract basis. In the year to 30 June 1999, Austrade assisted 309 companies who were either new to exporting or new to the Gulf markets (Austrade, 2000b).

Business Networks

Bilateral chambers of commerce in Australia and the Gulf strengthen trade and investment links. In Australia, the Australia-Arab Chamber of Commerce with over 400 members, is growing at 15 per cent per year. Members range from BHP, Toyota and General Motors Holden to one person consultancy companies. Similarly, the Australia-Iran Chamber of Commerce has 22 members comprising both large and small Australian companies.

In the Gulf, the Australian Business in the Gulf Group, ABIG, represents Australian businesses and individual Australians working in the Gulf region.[22]

Middle East Immigrants

Many Australians have migrated from the Middle East, but mainly from Lebanon, Turkey, Iran, Iraq and Egypt rather than the Arabian Peninsula. Nonetheless, the Australian Middle Eastern community provides an important source of native Arabic and Farsi speakers, and cultural and business contacts in the Gulf.

IMPLICATIONS

Prospects for closer trade and investment relations between Australia and the Gulf economies are bright. In the long term, economic diversification, foreign investment liberalisation and privatisation should reduce income volatility and increase average growth rates. In the short term, high oil prices offer an important opportunity to diversify and expand Australian manufactured exports. Australia's well developed agricultural and mineral export trade also should continue to grow as populations and industrialisation expand.

Australia's small, diverse Gulf investment presence is growing rapidly. The range of opportunities has never been wider, encompassing infrastructure, construction, oil and gas, mining, manufacturing, finance, tourism, transport and business services. A stronger investment presence is likely to have flow on trade benefits. The Gulf's small investment in Australia also is growing as air, tourism and business links between Australia and the Gulf expand.

21 From October 2000, Australia's embassy in Abu Dhabi, UAE will become accredited to Qatar.

22 Contact details for these organisations, and others, are listed in 'Information for Companies' at the end of this report.

REFERENCES

Allen, S., 2000, East Asia Analytical Unit interview with Sales Manager, Rydges Plaza, Dubai, March.

Atkinson, S., 2000, 'Recent GCC Infrastructure Developments, Sector Needs and the Prognosis', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Austrade, 2000a, 'Australia's Trade Relations with the Middle East Including the Gulf Region', Austrade Submission to Joint Standing Committee on Foreign Affairs, Defence and Trade Enquiry into Australia's Relations with the Middle East, Canberra, March.

___ 2000b, Information supplied to the East Asia Analytical Unit by Austrade, Canberra, August.

___ 2000c, Information supplied to the East Asia Analytical Unit by Susan Kahwati, Trade Commissioner, Austrade, Dubai, June.

Australian Bureau of Statistics, 2000a, Unpublished tourism statistics, ABS, Canberra, July.

___ 2000b, 'Balance of Payments and International Investment Position: 1998-99', Catalogue No. 5363.0, ABS, Canberra.

ANZ Investment Bank, Information supplied to the East Asia Analytical Unit, June.

AWB Limited, 2000, Information supplied to the East Asia Analytical Unit, July.

Bunton, M., 2000, East Asia Analytical Unit interview with Manager, International Trade, Smorgon Cyclone Rural, Canberra, April.

Business Monitor International, 2000a, 'Decision Time for Aluminium', *Middle East Monitor*, June, p. 11.

___ 2000b, 'Buy-Backs Move Onshore', *Middle East Monitor*, March, pp. 2-4.

___ 2000c, 'High Noon in the Neutral Zone', *Middle East Monitor*, March, pp. 2-4.

Canadian Business Development International, 1997, *The Agriculture and Agri-Food Exporter's Guide to Opportunities in the Middle East: Saudi Arabia,* Agriculture and Agri-Food, Canada, July, atn-riae.agr.ca/public/htmldocs/e1557.htm, accessed on 22 February 2000.

Crosthwaite, C., 2000, East Asia Analytical Unit interview with General Manager, Inter Search, Dubai, May.

Deacon, P., 2000, Information supplied to the East Asia Analytical Unit by Executive Director, Victorian Government Business Office, Dubai, June-July.

Department of Education, Training and Youth Affairs, 2000, Information supplied to the East Asia Analytical Unit by the Department of Employment, Education, Training and Youth Affairs, Canberra, July.

Department of Foreign Affairs and Trade, 2000, Stars Database, Department of Foreign Affairs and Trade, Canberra.

Department of Minerals and Energy Western Australia, 2000, 'Alumina', www.dme.wa.gov.au/statistics/resourcefocus00/alumina.html, accessed on 7 July 2000.

Emirates SkyCargo, 2000, Information supplied to the East Asia Analytical Unit by Emirates Airlines, July.

Fisher, D., 2000a, 'Desert Storm', *Overseas Trading*, May, pp. 30-33.

___ 2000b, Information supplied to the East Asia Analytical Unit by Senior Trade Commissioner, Riyadh, July.

Giller, S., 2000, East Asia Analytical Unit interview with Director, Austanz International and President, Australia Arab Chamber of Commerce, Melbourne, June.

Gold Coast City Council, 2000, Information supplied to the East Asia Analytical Unit by Gold Coast City Council, Mayor's Office, July.

Gulf Cooperation Council, 1999, *Economic Bulletin*, Vol. 14.

International Monetary Fund, 2000, *International Financial Statistics*, IMF, Washington DC.

Jeffreys, A. (ed.), 2000, *Emerging Emirates 2000*, Oxford Business Group, London.

Knox, G., 2000, 'Raising Finance for Middle East Infrastructure Projects', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Moore, D., 2000, Information supplied to the East Asia Analytical Unit, June.

Multiplex, 2000, Information supplied to the East Asia Analytical Unit, June.

Pacifica Group Limited, 2000, Information supplied to the East Asia Analytical Unit, July.

Pardy, C., 2000, East Asia Analytical Unit interview with Director, Pardy and Sons, Sydney Markets, August.

Peacock, R., 2000, Information supplied to the East Asia Analytical Unit, August.

Queensland Sugar Corporation, 2000, Information supplied to the East Asia Analytical Unit, June.

SAGRIC International Proprietary Limited, 2000, Information supplied to the East Asia Analytical Unit, July.

US Department of State, 1999a, 'FY 2000 Country Commercial Guide: Saudi Arabia', prepared by US Embassy Riyadh, released by Bureau of Economic and Business Affairs, US Department of State, at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

___ 1999b, 'FY 2000 Country Commercial Guide: Kuwait', prepared by US Embassy Kuwait, released by Bureau of Economic and Business Affairs, US Department of State, at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

Vaile, M., 2000a, 2000, Press release by the Minister for Trade, 'Auto Exports to Middle East Soar', 3 March.

___ 2000b, Press release by the Minister for Trade, 'Reassurance on Alumina Supplies', 3 March.

THE BUSINESS ENVIRONMENT

KEY POINTS

- Most Australian companies use commercial agencies to distribute their goods in the Gulf. However, companies need to take great care in choosing agents and drawing up agency agreements. As the long term trend is for agents' legal importance to decline, agents are looking to add more value and be more actively involved in businesses than in the past.

- Arabian Peninsula economies generally have similar, investment grade risk ratings to the Republic of Korea, Malaysia and Thailand, although Iran is rated significantly more risky. Further economic reform and diversification are critical to improve ratings.

- The Gulf region's young population will influence the future regional business environment. Young populations will stimulate demand for snack foods, housing, education, information technology and communication products. On the other hand, pressure to localise employment will grow as the number of local workforce entrants swells.

- Several Gulf jurisdictions' legal frameworks are not as well developed as western economies', so avoiding litigation is important to business success. To avoid litigation, undertake thorough due diligence on potential partners and use all available means of non-legal dispute resolution, such as negotiation and arbitration.

Understanding the Gulf region's unique history, religion and culture significantly improves the business prospects of today's traders and investors. For millennia, these countries have been trade crossroads between Europe, Asia and Africa, actively engaging in and facilitating international trade. The Gulf economies present an array of market types, ranging from extremely poor Yemen and lower middle income Iran, to very wealthy Saudi Arabia, the UAE, Qatar and Kuwait. Unusual demographic, ethnic and cultural diversity also influences commercial opportunities.

This chapter draws out the implications for western businesses of the region's religion, culture and history. It then assesses the regional legal environment and analyses some key business issues, including the role of distribution representatives, market risk, taxation, demographics, bureaucratic culture, the role of chambers of commerce, Arab-Israeli relations, the role of negotiation, marketing issues and visa requirements. Appendices detail taxation, labour and other business environment policies in individual economies.

RELIGION

Islam, the region's dominant religion, permeates policy making and daily life far more than religion does in western economies. For example, while exceptional by regional standards, the Leader of the Islamic Revolution in Iran and conservative Islamic theologians in Saudi Arabia considerably influence law making and economic policy. Islam also guides food and drink consumption, clothing patterns, financial sector activities and products, attitudes to advertising, sayings and phrases, and most of the population's world view.

The primary source for Muslim behaviour and beliefs is the *Koran*, the holy book of Islam, which is complemented by the Prophet Mohamad's sayings recorded by historians or *hadith*, and a large body of Islamic jurisprudence and scholarly analysis. *Sharia*, or traditional Islamic law, underpins the legal systems of all the Gulf states.

All Muslims should adhere to the five basic tenets of Islam:

1. *Al-Shahada* – declaring and living by the statement, 'there is no God but Allah and Mohamad is his Prophet'
2. *Al-Salah* – praying according to the laws of Islam, five times each day (three in the case of the S*hi'a* denomination)
3. *Al-Zakah* – giving alms to the poor (normally 2.5 per cent of income and inheritance each year)
4. *Al-Siyam* – observing the holy month of *Ramadan* (which includes abstaining from eating, drinking, smoking and sexual relations during daylight hours)
5. *Al-Hajj* – undertaking a pilgrimage to Mecca at least once in a lifetime, if affordable.

The Gulf region contains followers of both *Sunni* and *Shi'a* Islam. These two communities dispute the original method of choosing a successor to the Prophet Mohamad, and *Shi'a* followers allow appointed religious leaders, the *Imams* and *Ayatollahs*, to control religious doctrine. These differences do not radically affect the way of life in either community. The *Shi'a* dominate in Iran, form a majority in Bahrain, and account for a sizeable proportion of the Kuwaiti and Saudi populations.

The *Sunni* account for most of the Saudi and lower Gulf populations, and dominate in the rest of the Arab Middle East, except southern Lebanon.

CULTURE AND HISTORY

Understanding how Arab and Persian culture and history are different, and how they influence business practices, is critical to business success in the region.

Culture and History on the Arabian Peninsula

Contemporary Arabian Peninsula culture derives from traditional *bedouin* or nomadic customs, and from being Islam's birthplace. Until oil exploitation in the mid twentieth century, much of the Arabian Peninsula's settled population lived either in small cities in the west of present day Saudi Arabia or in Yemen. The rest of the peninsula was either populated by nomadic tribes, or was virtually uninhabited desert. The borders of twentieth century nation states reflect foreign power demarcations rather than traditional boundaries, and many are disputed.

Persian Culture and History

Iran (formerly Persia) has a long history of settled civilisations and contact with the outside world. The area encompassing modern Iran was a trade crossroads on the ancient Silk Road between Asia and Europe. While outside powers conquered Iran many times, it also controlled a regional empire and was a major centre of cultural, scientific and economic achievement. Consequently, Iranian national identity and pride in past achievements is strong.

ARABS AND PERSIANS

Despite geographical proximity and some cultural similarities, Arabs and Persians are completely separate peoples, often taking offence if misidentified or grouped together.

Arabs are of Semitic background, originally from the Arabian Peninsula and the Levant.[1] Arabic language belongs to the same family as Aramaic and Hebrew. Persians are of Caucasian ethnicity, and *Farsi* or Persian language is of Indo-European origin. Written Arabic and Persian overlap, especially in religious, scientific and political terminology, but common usage and grammar are quite different.

A common issue relating to Arab and Persian terminology is the official term for the Gulf itself. Iranians refer to it as the 'Persian Gulf', which is reflected in reflects the United Nations' and the Australian Government's practice, while Arabs refer to the 'Arabian Gulf'. Using an inappropriate term on official documents, such as export labels or contracts, can cause serious problems for the business involved and local partners or representatives.

---

[1] Semitic refers to a number of racial groups, including the ancient Phonecians and Assyrians, as well as Jews and Arabs.

Common Cultural Issues Influencing Business

Persian and Arab cultures share many characteristics, including regarding honour, face, modesty, hospitality, patience and trust as important indicators of character. Usually, foreigners' minor, unintentional cultural and social mistakes are forgiven; many business people and senior officials are western educated or experienced in dealing with westerners.[2] Nonetheless, culturally acceptable behaviour greatly assists communication between business people.

Personal Honour

Because personal honour is so important, including maintaining face against comments or actions considered insulting, confrontational behaviour is unlikely to succeed. Honour also applies to the family, where defending family, including extended family members, is extremely important. Behaviour, such as reluctance to bear bad news, is related to the importance of honour.

Modesty in Dress and Behaviour

Modesty is manifested foremost by relatively conservative dress and behaviour, by western standards.[3] While dress standards for westerners generally are more relaxed in the less conservative states of the UAE, Oman, Kuwait, Qatar and Bahrain, 'skimpy' clothing is culturally insensitive.

The traditional greeting between two Arab or Iranian men includes a hug and often a kiss on the cheek, as well as extensive personal inquiries. Most Middle Easterners use a handshake with foreigners and considerable social chat. In more conservative Gulf economies, greetings to foreign women may not include physical contact, as traditional people and religious leaders never physically touch a woman who is not family. However, many younger or more westernised Middle Easterners will shake hands with a woman. Generally, men and women should not publicly display affection; in Saudi Arabia, married couples do not even hold hands. In Bahrain and the UAE, conventions are less strict for foreigners, but behaviour should favour conservatism.

Hospitality

Hospitality is a key characteristic of Arab and Iranian culture. Generosity to guests is a strong tenet of Islam, but also stems from traditional tribal structures, and in the Gulf Arab case, the hardships of the traditional nomadic desert lifestyle where refusing hospitality to visitors could cause their deaths. Hospitality therefore is an integral part of business relationships. Guests should not refuse basic hospitality such as drinks and food, invitations to social functions or small gifts. However, they should treat more valuable gifts cautiously. If a business person accepts an expensive gift, a holiday or anything disproportionate to the business relationship, recipients may be seen as indebted to the provider and their negotiating position weakened (Williams, 1998).

---

2 For more background and explanation of the foundations and evolution of Arab business and management culture, see Ali, 1990; and Bakhtari, 1995.

3 Male foreigners should wear a business suit during business hours, and a sports jacket or similar casual clothing on informal occasions (Ghassan, 2000). Female foreigners usually should wear a long sleeved blouse, long skirt or dress or loose-fitting trousers. In Saudi Arabia, foreign women must wear a loose-fitting black cloak or *abaya* to completely cover their normal clothing and should carry a large scarf to cover their heads if required. In Iran, all women must wear clothing to cover everything, except the face and hands, including upon arrival in the country.

Attitudes to Time and Meetings

Some Middle Eastern people are not rigidly tied to timing or deadlines; this should not be interpreted as discourtesy or lack of interest (Ghassan, 2000). While some business meetings may not start on time, foreigners should not assume that turning up late for meetings is acceptable. Because people accept invitations to simultaneously held events, last minute cancellations or changes of plan are common. In such situations, Arabs usually attend the more important event without concern for order of acceptance. Family obligations and responsibilities toward government leaders often override other considerations.

Arabs often view agendas as unnecessary, so they are best avoided, apart from providing a general outline of issues for consideration. Agendas including sensitive or uncomfortable issues will be counter-productive; such matters are only discussed when people are comfortable and ready to progress to them. Issues of real sensitivity tend to be canvassed toward the end of discussions, and often are addressed initially in indirect ways. Excessive note taking or verbatim reporting of meetings may be unacceptable and inhibit establishing strong personal rapport (Williams, 1998).

Friendship and Trust in Business Relationships

In both social and business contexts, many Middle Easterners are unwilling to trust people they do not know. Mutual respect and trust is the key protection in a relationship and most effective in ensuring fair treatment for all parties. Hence, while building trust takes time, it is an essential prerequisite for business relationships. An introduction from a trusted third party can slightly speed up this process, but several meetings, including some socialising, is normal before commencing serious business negotiations. Once established, regular visits and contact should nurture a business relationship. One order does not necessarily become several, even if the client is satisfied, unless the relationship is maintained.

Political and Historical Factors

Both Arabs and Iranians attach importance to the widely held perception that Australian business people are honest and reliable business partners. The feeling is widespread that Australians, unlike some other Westerners, do not have political ambitions or negative historical associations with the region. These factors create important advantages for Australians seeking opportunities to do business in both the Arabian Peninsula and Iran.

AWB LIMITED: A SUCCESSFUL LONG TERM STRATEGY

AWB Limited, formerly the Australian Wheat Board, has captured around two thirds of the A$2.4 billion per year Gulf wheat market through a strategy of developing long term partnerships with key regional buyers and governments.

In Abu Dhabi, in the UAE, AWB has been the sole supplier since a flour mill was established in the 1970s. In Iran, a close and longstanding relationship with the monopoly importer, the Government Trading Company, GTC, helps AWB routinely supply up to 60 per cent of Iran's import requirements. GTC greatly values AWB's continued supply, despite the Iran-Iraq war, US trade embargoes and Iranian economic difficulties. AWB has worked closely with Australia's Export Finance Insurance Corporation to extend short term insurance and finance to cover contracts under National Interest provisions, to maintain market competitiveness.

AWB promotes and markets Australian wheat as a distinct, branded product, with reliable quality designed to meet specific customer end use requirements. This strategy differentiates AWB from other bulk wheat suppliers, and meets the demand for quality and service that adds value to customer businesses.

Source: AWB Limited, 2000.

THE LEGAL ENVIRONMENT

The region has a distinct legal environment with *Sharia* law forming a basis for regional constitutions and applying to such civil issues as marriage, divorce and inheritance.[4] *Sharia* law recognises property rights and contractual obligations. However, beyond that, its direct business impact is limited; business law is not usually cited in religious texts and tends to be government legislated. Nonetheless, legal frameworks are not as well developed as in western economies, and avoiding litigation often is critical to business success.

Key legal issues for foreign companies operating in the Gulf include:

- undertaking thorough due diligence on commercial agents or investment sponsors to minimise the chances of costly, time consuming legal action
- complying with the complex foreign ownership laws, where movements above certain thresholds can be illegal or have major tax implications
- minimising the likelihood of paying compensation to agents in the event of non-renewal, or unjustifiable termination of agency agreements
- seeking intellectual property protection.

[4] Information on the regional legal environment was kindly provided by UK law firm Trowers & Hamlin, which maintains a network of branch offices and cooperation arrangements with local counsel across the region. (See contact details at the end of the report.)

Courts do not always award interest or costs, and require Arabic documentation. Consequently, using the court system is generally the last resort after exhausting all avenues of negotiation and arbitration. Whenever possible, contracts should specify third country arbitration.

All regional economies anticipate substantial business law reform in the near future, with WTO requirements a major driver. Key priorities include developing competition laws, which currently only exist in Yemen, further improving intellectual property protection and reforming commercial agency laws.

Saudi Arabia

In Saudi Arabia, appeal to the Board of Grievances is an automatic right in commercial disputes, including claims against the government and government agencies. Practitioners regard the board as impartial in deciding between domestic and foreign interests. However, Saudi courts do not award interest or costs, and damages are limited to actual or tangible losses, with no means to recover loss of business reputation or anticipated future profit. Consequently, foreign companies prefer arbitration.

The enactment of the new Foreign Investment Regulation of 10 April 2000 marks the beginning of an extensive reform program of Saudi Arabia's business laws. Already, laws on taxation of foreign companies and land ownership have changed, although how all the changes will work in practice is unclear.

The UAE

Federal legislation covers most key business areas to some degree. Individual emirates also have their own laws governing land, property, natural resources and taxation. The court system is not necessarily quick or efficient for resolving disputes and costs are not awarded, but frequently courts award simple interest of up to 12 per cent on disputed late payments. Chambers of commerce promote arbitration; however, court involvement is usually required for enforcement. Moreover, foreign arbitral awards and judgements generally are not enforceable without court endorsement.

The United States now considers intellectual property law sufficiently robust for it to remove the UAE from its 'watch list'. However, as a WTO member, the UAE is likely to come under pressure to address the restrictive nature of its commercial agencies law. Competition and consumer protection laws also are lacking.

Iran

Foreign companies find the current legal situation problematic. Commercial law is codified in overlapping legislation, and the court system is inefficient and arbitrary. Moreover, government regulations constantly change and may override legislation; overlapping municipal, provincial and national legal jurisdictions also make it difficult to determine appropriate jurisdiction.

The strong likelihood of legislative change to business laws under the new, reform minded administration, particularly acceptance of international arbitration, is a positive sign.

Kuwait

Kuwait is undergoing a major reform of business laws, with a new industrial law passed in 1999 and new intellectual property protection law implemented in 2000. Courts are reasonably effective for resolving disputes, but arbitration is an important first step, and formally recognised in law.

Oman

Oman's WTO accession bid has helped business law reform. Oman tightened intellectual property protection in 1999, and should relax foreign investment and taxation laws discriminating against companies with foreign equity in 2000. The court system generally is effective for resolving disputes and becoming more so, as precedents are established. Arbitration is encouraged as the commercial court upholds both the decision to arbitrate and choice of governing law for, and location of, arbitration.

Bahrain

Bahrain's business law is generally well developed and respected. The courts are an effective, albeit time consuming means of resolving disputes. Bahrain has a developed arbitration system, with two commercial arbitration centres, one being the GCC States Centre for Arbitration. The highly regarded Bahrain Monetary Agency regulates banking and finance, and its prudential supervision of banking drives Bahrain's growth as an offshore financial centre.

Yemen

Yemen's business laws are well developed, covering intellectual property protection and competition policy, and equally treating Yemeni and foreign capital. Arbitration also is allowed, and if one party is non-Yemeni, the parties may agree to arbitrate outside Yemen. However, Yemeni courts require further development to support fully Yemen's modern commercial legislation.

Yemen's desire to accede to the WTO by 2005 should drive further legal reform.

KEY REGIONAL BUSINESS ISSUES

Regional business issues important to commercial success include:

- importance of agents and their changing role
- choice of a local investment partner
- degree of market risk
- taxation regimes
- changing demographics
- bureaucratic culture
- key role of chambers of commerce
- Arab-Israeli relations
- importance of negotiation
- need for a different emphasis in marketing
- visa requirements.[5]

[5] Foreign direct investment restrictions also are a critical issue. (These are considered in Chapter 4 - *Foreign Investment*.)

The Importance of Agents

Most Australian companies selling goods on the Arabian Peninsula initially use an agent to market and distribute their products. Generally in Oman, Qatar, Kuwait and Bahrain, by law, foreign companies exporting directly to the region must use local agents to distribute goods locally (Table 5.1). In the UAE, for products with low promotion and after sales service requirements, an exchange of letters between a foreign company and a re-seller can avoid legal problems associated with agency laws (United States Department of State, 2000). Agents are less critical in Iran, as the central bank prioritises all potential imports to determine foreign currency allocation. Instead, most exporters, particularly of basic food, industrial and agricultural items, submit tenders to government trading companies, ministries or merchants with an import licence.

On the Arabian Peninsula, choice of an agent is critical because laws governing agents and their relationship with foreign firms are inflexible, and in legal disputes, courts usually favour local agents. Furthermore, as mass advertising is less prevalent than in the West, agents and distributors are primary marketing tools. Australian companies establishing a presence in the region often engage specialist representatives with regional experience, such as Austrade, state government business offices or export consultants, to help find the right agent or distributor.

Agents' importance and contractual inflexibility increases the importance of drawing up formal agency agreements. Agreements in Arabic or Farsi should not be signed without independent translation (Fisher and Fisher, 1998). Clauses regarding individual responsibilities, performance, expiry and termination are critical.[6] For example, in Oman, local agents must be compensated when terminating an agreement, unless they clearly failed to fulfil prescribed obligations (British Bank of the Middle East, 1997a). The Saudi and Kuwaiti Governments have produced 'model' agency agreements, which can form the basis to negotiate a document both parties accept. In Saudi Arabia, any additions to the agreement cannot conflict with or detract from the model agency agreement. Specific legal advice on any proposed alterations is critical, as infringement of Saudi commercial law results in fines or bans on doing business there (Fisher and Fisher, 1998).

SAN REMO: SUCCESSFULLY EXPORTING TO THE GULF

San Remo Macaroni Company Limited has exported to the Middle East through an Australian manufacturer's representative for the last ten years. San Remo started with a limited range of pasta meals, then diversified into a wider range of pasta products, Asian noodles and snack foods under two brands. Over the decade, sales have fluctuated considerably, but presently exceed A$1 million and are growing strongly; noodles and snack foods presently are doing best. San Remo is implementing a new marketing strategy for pasta products and expects to double its export values over the next two to three years. In addition to the Gulf, San Remo exports to Egypt, Jordan and Lebanon. It has separate distribution arrangements in each economy.

Source: Giller, 2000.

[6] Importantly, an expiry date alone may not be sufficient reason to cancel a registered agency agreement.

DIFFERENT AUSTRALIAN APPROACHES TO EXPORT MARKETING

Current President of the Australia Arab Chamber of Commerce and Industry, Syd Giller, organises importing, marketing and distribution in all Gulf markets through his company, Austanz International. Austanz represents companies such as Berri and San Remo, focusing on accessing the most appropriate representatives to distribute products and developing suitable marketing strategies. Austanz works with local representatives on marketing and with distributors in preparing the initial draft of each annual marketing plan to ensure a consistent focus across regional markets, and to inject appropriate international marketing techniques. Giller maintains that successfully exporting retail ready products to the Middle East through an agent requires a whole hearted market commitment for at least three years. This commitment helped Berri and San Remo to succeed.

The Al Mutawie General Trading Company, managed by Australian, Barrie Harmsworth, also imports and markets Australian products, including metal manufactures and industrial abrasives, as well as construction related products from Europe. This company has a local partner who actively promotes the company's products and provides financial guarantees to obtain bank credit. Harmsworth believes the active participation of a well informed local partner, along with an experienced expatriate manager, can avoid damaging pitfalls in a market where exposure and risk often are difficult to determine accurately.

Source: Giller, 2000; and Harmsworth, 2000.

Future Role of Agents

Over the next five years, the agent's role is likely to change considerably. As elsewhere, e-commerce will reduce dramatically the role of intermediaries in many Gulf industries. For example, already major clients try to do business directly with Johnson and Johnson Medical Middle East (McLaren, 2000). In addition, WTO requirements increase the difficulty of reserving agency roles for nationals and of requiring exclusive agencies. For example, the Saudi Government recently banned the use of agents in bidding for downstream gas developments, while Oman and Bahrain no longer require exclusive agencies. Combined with tariff unification, these reforms will increase the scope to have one distributor for several different Gulf markets, rather than one distributor per market.

Generational change also is important in driving change in agents' roles. In the UAE, higher education levels and recognition that agents increasingly will need to add value means the younger generation are developing their own businesses and becoming more involved in actively running them (Deacon, 2000). This is opening up opportunities for Australian business, as these young entrepreneurs often seek non-traditional suppliers to help establish their businesses (Deacon, 2000).

Choosing a Local Investment Partner

Requirements for majority local ownership are common, particularly in the UAE, Kuwait, Iran and until recently, Saudi Arabia. (See Chapter 4 - *Foreign Investment*.) Even without these requirements, a strong local partner can be an important asset, facilitating prompt payment and market access. Finding the right investment partner often can be time consuming, but Austrade offices in the Gulf, and state government economic development offices in Dubai provide partner matching services for Australian companies. (See contact details at the end of the report.) Consulting and accounting firms like Talal Abu-Ghazaleh also can introduce foreign investors to wealthy local investors looking for joint venture opportunities (Hashem, 2000).

Contacts through other Australian firms and regional clients can be useful. In establishing its business supplying and installing mobile taxi data and communications equipment in Dubai, Raywood Communications found a 51 per cent local partner through the contacts of another Australian company already operating in the Middle East. The Dubai Transport Corporation helped check the partner's credentials, and locally based English solicitors drew up a partnership agreement (Elton, 1999).

Market Risk

Arabian Peninsula economies generally have similar investment grade risk ratings to the Republic of Korea, Malaysia and Thailand (Table 3.1).[7] Iran is rated significantly more risky; however, with most of Iran's foreign debt likely to be retired by 2002, prospects for a ratings upgrade are good.

The main factors positively influencing risk weightings on the Arabian Peninsula are large oil reserves and structural savings surpluses, which strengthen repayment ability. Saudi Arabia's 1998 gross domestic savings rate of 35 per cent compared to its gross domestic investment rate of only 20 per cent, while Kuwait's 1998 gross domestic savings rate of 25 per cent compared to its gross domestic investment rate of only 13 per cent (World Bank, 1999).[8]

Negative factors include weak fiscal and economic management and political and security problems. For example, in 1998 Saudi central government domestic debt reached 116 per cent of GDP, and throughout the region economic reform is progressing slowly and over reliance on oil continues. Internal political problems remain including succession concerns in Saudi Arabia and Kuwait, unresolved demands for democracy in Bahrain, ongoing banditry in Yemen and tensions between moderates and conservatives in Iran.

7 Except Yemen which attracts the most negative sovereign risk rating from Australia's Export Finance Insurance Corporation, and which Moody's and other leading international rating agencies do not rate.

8 Data for other Gulf economies are not available from World Bank, 1999.

Table 3.1

Low, Medium and High Risk Ratings

Moody's and EFIC Risk Assessments for the Arabian Peninsula and Iran

	Moody's long term bonds and notes ratings[a]	EFIC risk ratings[b]
Bahrain	Ba1	2
Qatar	Baa2	2
UAE	A2	3
Saudi Arabia	Baa3	3
Iran	B2	5
Oman	Baa2	3
Kuwait	Baa1	2
Yemen	na	6
Thailand	Baa3	3
Republic of Korea	Baa2	3
Malaysia	Baa3	3

Note: a Moody's investor service ratings: obligations that extend longer than one year are rated using Moody's Aaa-through-C long term rating symbols, with Aaa representing the highest credit quality, meaning that the obligation ranks highest in its margins of investor safety against credit loss, even under severe economic conditions. The lowest rating, C, indicates the lowest level of credit quality, meaning that the obligation has extremely poor chances of attaining any real investment value. In between, obligations rated Baa and above are termed investment grade. Those rated Ba and below are speculative grade. Moody's uses a separate rating system to rate securities that mature in less than one year.

b Export Finance and Insurance Corporation, EFIC, ratings also are by category, with 1 the lowest risk and 6 the highest. Ratings are effective as of August 2000 and may change over time.

na means not available.

Source: Moody's Investor Services, 2000; and Export Finance and Insurance Corporation, 2000.

Iran's higher risk rating stems from the slow pace of economic and political change, high reliance on oil for foreign exchange revenues and absence from international capital markets which gives it little flexibility to borrow new money or refinance existing debt during oil price slumps. Under these pressures, Iran twice rescheduled its bilateral debt in the 1990s. Nonetheless, Iran's higher country risk can be offset by lower buyer risk. For example, the Iranian Government Trading Company is a monopoly purchaser of basic foodstuffs with priority access to foreign currency through central bank letters of credit; Queensland Sugar Corporation and AWB Limited successfully expanded their exports to Iran through this company. (See Chapter 2 - *Australian Opportunities*.)

The Future

With the region's burgeoning infrastructure and project financing requirements, governments increasingly recognise the benefits of investment grade credit ratings. In 2000, strong oil prices should improve domestic fiscal positions. However, to improve their credit ratings, the Gulf economies also need to progress economic reform, further liberalise investment laws and level the playing field between domestic and foreign companies.

Complementing reform efforts with further economic diversification would reduce the risk associated with fluctuating oil prices. The UAE and Bahrain already have developed strong services sectors, while Qatar and Oman are particularly well placed to diversify with major gas projects coming on-stream, although the foreign debt incurred in establishing these projects needs to be reduced.

Taxation Issues

The Arabian Peninsula is unique in having no personal income tax, wholesale or point of sale taxes. Bahrain and the UAE also levy no corporate tax on firms in most sectors.[9] Generally throughout the region, corporate tax rates rise as profits and foreign equity rise (Appendix Table 3.1).

Foreign businesses often are taxed implicitly through higher charges for utilities and health care, and via a range of other charges. For example, according to BDO Hospitality consultants, a Dubai based management consultancy, governments progressively are using trade licences, residence visas and work permits for indirect taxation (Wilkinson, 1998). In addition, Abu Dhabi recently raised utility charges for expatriates by 80 per cent, albeit only to cost recovery levels (*Gulf Business*, 2000). Until revenue bases are broadened, this trend is likely to continue and spread to local citizens.

TAXATION OF AUSTRALIAN NATIONALS

Under Section 23AF of the Australian Income Tax Assessment Act, Australian businesses undertaking specific projects in the Middle East can apply to Austrade, which coordinates applications for the Australian Tax Office, to have the earnings of employees or contractors exempted from Australian taxation. Approval as an eligible project depends on factors including existence of foreign competition, employment of Australians, a net foreign exchange benefit or a goodwill benefit to Australia. Employees or contractors working for an Australian company on an eligible project can claim the salary related components of their remuneration package as tax exempt, thus ensuring a competitive position in the world labour market.[10]

Source: Deacon, 2000; and Moore, 2000.

Demographics

The Gulf region's young population and the importance of non-nationals in many economies have important business implications.

Young Populations

The Gulf Cooperation Council, GCC, economies' populations are very young, with 66 per cent of the population aged under 25 (*Gulf Cooperation Council*, 1999 and Figure 1.9).[11] This is due to the high

9 In the UAE, individual emirates levy corporate taxes in the oil and gas sector, and banking.

10 The Australian Tax Office does take the global earnings of the individual into account in determining the average tax rate. However, this rate only applies to Australian earned income.

11 In Iran, the proportion of the population aged under 25 is even higher, at 70 per cent.

birth rate of nationals, whose per capita incomes surged after the 1970s oil shocks, and to large numbers of young immigrant workers. This young population should stimulate demand for a range of products including education, music products, snack foods, travel, housing, electronics, information technology and communication products and mortgage finance. (See Chapter 2 - *Australian Opportunities*.) Pressures to lift employment growth also should maintain economic reform pressure. (See Chapter 1 - *Economic Prospects*.)

The Importance of Non-nationals

Non-nationals are an important element in all GCC markets, accounting for more than 70 per cent of the population in the UAE and Qatar, and 65 per cent in Kuwait (Figure 3.1). The different income levels and cultural backgrounds of expatriate and local populations in already small markets complicate advertising and marketing.

In many Gulf economies, non-nationals do virtually all menial, dangerous or lowly paid work, and fill many skilled and managerial private sector positions. In many cases, foreign companies will deal with non-nationals, although often a local citizen is still the ultimate decision maker.

Localisation of Staff

Young rapidly growing local populations, large non-national populations and state sectors unable to provide enough quality jobs for citizens drive attempts to increase local citizens' private sector role. The programs, known as Saudiisation, Omanisation, Emiratisation and Qatarisation, direct a range of industries to lift their employment of local citizens.[12] For example, by the end of 1998, 60 per cent of Oman's transport and storage industry workforce was expected to be Omani, as was 35 per cent of manufacturing, 30 per cent of the hotel industry and 20 per cent of the restaurant service workforce (Economist Intelligence Unit, 1999a).

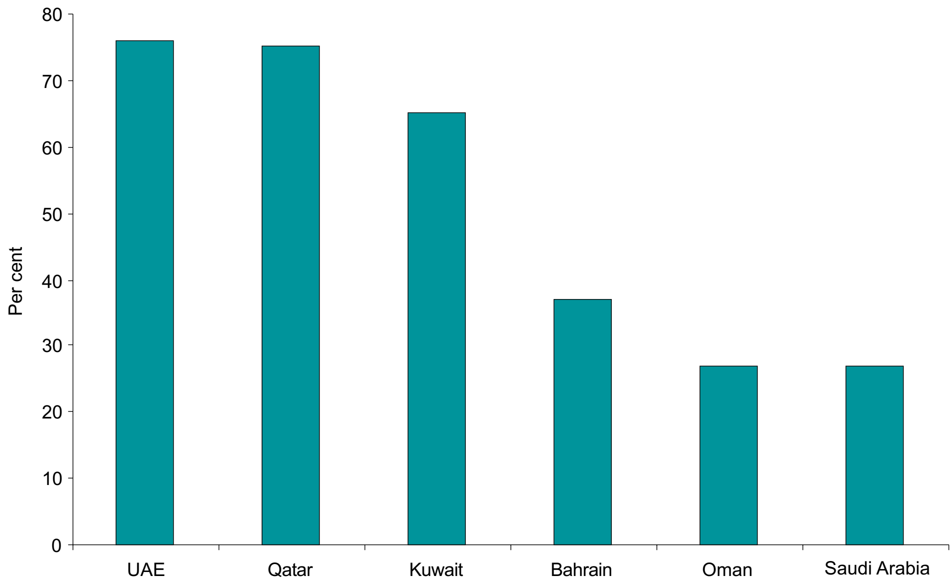
In the UAE, Emiratisation largely applies to banks, which must lift the average proportion of national employees from 12 to 14 per cent in 2000, then to 25 to 40 per cent by 2006; and individual banks must raise their Emirati workforces by 2 percentage points each year (Economist Intelligence Unit, 1999b; and Nangia, 2000).

12 Employment of nationals is a lesser issue in Bahrain.

Figure 3.1

Non-nationals Most Important in the UAE and Qatar

Non-nationals as a Share of the Total Population, Per cent



Source: Business Monitor International, 2000.

Businesses also face taxes or administrative charges that increase the cost of employing expatriates. For example, in 1995, Oman levied a tax of 7.5 per cent of basic salary on expatriates, while Saudi Arabia recently increased the cost of visas, work and residence permits for expatriates from US$94 to US$427 (Economist Intelligence Unit, 1999a and 1999c).

Some local and foreign businesses are unhappy with this policy trend, claiming local workers cost more, are less motivated and change jobs more frequently than expatriate workers. In Oman, quotas in the hotel and restaurant trade may even restrain foreign participation in developing Oman's considerable tourist potential. Bahrain's approach may be preferable; there, the Government has sought to increase the skills and productivity of locals, and hence their relative attractiveness to employers. To supply staff for the banking sector, the Bahrain Monetary Authority supported developing high quality courses at the well regarded Bahrain Institute of Banking and Finance at Bahrain University. Consequently, while no quotas for Bahraini staff exist, foreign banks located in Bahrain speak highly of their Bahraini employees, and 70 per cent of staff of Bahraini banks are locals (Belooshi et al, 2000; Brodedelet, 2000; and Atkinson and Dixon, 2000).[13]

13 As Bahrain is running out of oil, locals have no real choice but to find productive employment and cannot demand wages well in excess of their productivity.

Bureaucratic Culture

The Gulf region has a strong bureaucratic culture stemming from state led development and import substitution industrialisation policies pursued between the 1950s and the 1980s. The strong bureaucracy and formalised authority structures mean usually a small number of senior people make decisions. Access to these decision makers can be difficult, but often is vital to obtain an agreement, approval, or firm product order. Moreover, if businesses do not gain appropriate access, getting low level decisions reviewed can be difficult. Often senior officials make consensus decisions, which can slow down the decision making process.

The Greater Role of Chambers of Commerce

Chambers of commerce and industry in the Gulf states are more influential than in Australia, often performing a function closer to a Department of Industry in western economies. Each emirate in the UAE, as well as Bahrain, Kuwait and Qatar has its own chamber of commerce, while Saudi Arabia has a national chamber and a series of subordinate regional chambers. Establishing a business in the Gulf requires membership of the local chamber of commerce; this generates large revenue bases for chambers. These chambers are large employers and have strong relationships with government, which usually appoint chamber executives.[14] Chambers of commerce also help resolve agency disputes and oversee importing. For example, importers to Bahrain must belong to the Bahrain Chamber of Commerce and Industry, and importers to Qatar must register with the Qatar Chamber of Commerce (British Bank of the Middle East, 1997b; and Hong Kong Shanghai Banking Corporation, 2000).

The importance of Gulf chambers of commerce means business partners attach importance to the Australia-Arab Chamber of Commerce and Industry; membership can be an important market entry tool.

Labelling Requirements

The Gulf economies often require Arabic or Farsi labelling of food, medicine and personal care products. Required information is less prescriptive than in Australia, and includes product description, list of ingredients and the supplier's name and address. Even without legal requirements, Arabic or Farsi labelling and advertising is more effective than English only marketing.

Food and medical products also require an expiry date, equivalent to an Australian use by date, and a production date. In Saudi Arabia and the UAE, government regulations specify expiry dates; whereas, in Bahrain and Kuwait, manufacturers decide safe shelf lives for themselves (Giller, 2000).

Arab-Israeli Relations

Iran and all Arabian Peninsula economies, except Oman and Qatar, still boycott trade with Israel. However, since 1994, GCC economies no longer enforce secondary and tertiary boycotts of third parties dealing with or investing in Israel. Hence foreign firms now can maintain links with both Israel

[14] Staff also frequently move between the chambers and government.

and most Gulf economies. Nonetheless, travellers to the Gulf region should not use a passport including Israeli entry or exit stamps.

Negotiation

Local Gulf businesses expect long negotiations, partly because they develop mutual confidence at a personal level. Final decisions often come down to price, but discussions often focus on quality and factors differentiating a product. Further, Middle Easterners frequently use diversions and strategic behaviour to gain the upper hand. For example, to gain concessions, local negotiators may express surprise at the price demanded or at a comment made. This should be politely refuted, taking care to avoid loss of face, and not interpreted as a breakdown in discussions (Williams, 1998). Maintaining a sense of humour and equanimity is important, although self deprecating humour may diminish the status of the person using it.

Factors particularly important to negotiating successfully in the Gulf economies include:

- putting proposals to appropriate people with decision making powers, such as heads of sections, vice presidents, and deputy chief executive officers
- being seen as a decision maker with a suitable title. A negotiator continually referring back to head office for authority quickly loses credibility
- pitching the initial offer at the right level, allowing scope for bargaining down but not seeming greedy.

Marketing

For many foreign businesses, commercial agencies remain an important marketing tool. Designing effective advertising is challenging because of the region's diverse populations. However, advertising is increasingly important because of the growing importance of brand identity and capturing market share.

Advertising also must suit local standards. For example, catchy one word slogans are rare in Arabic or Persian, and often cause misunderstandings. Material should be descriptive, 'soft sell', and even 'flowery' or dramatic. Highlighting how a product will help clients or save them money is more effective than telling clients what 'is best' for them. Material that includes an attractive woman, especially a scantily clad one, or an amorous couple, can be culturally insensitive, and is banned in Saudi Arabia and Iran.

VISAS

Obtaining visas is an important, and often time consuming administrative problem for foreign business people travelling to the Gulf region. A guide to visa rules for Australians for each country is:

- Bahrain – visas are available on arrival at Bahrain airport for stays under seven days; such stays require an onward or return ticket. Longer stay visitors require a visa issued in advance by an embassy abroad or arranged through a local sponsor
- Kuwait, Oman and Qatar – business travellers should arrange visas in advance through an in-country sponsor; usually this is the company with which business is being conducted or a top-end hotel. The sponsor deals directly with local authorities and is responsible for the visitor during the stay
- the UAE – the UAE Embassy in Canberra issues visas, usually in a few days. Sponsors also can arrange visas, with hotels again able to act as sponsors
- Iran – the Iranian Embassy in Canberra issues visas. Travellers need a cogent travel purpose; 'business' usually is not a satisfactory explanation. Travellers also should have a local contact or sponsor plus pre-arranged travel and accommodation bookings
- Saudi Arabia – business travel visas must be arranged in advance with a sponsor and the Royal Embassy of Saudi Arabia in Canberra issues them after the Ministry of Foreign Affairs in Saudi Arabia instructs them to do so. The sponsor is usually an actual or prospective business partner. Austrade also may be able to assist first time visitors with sponsorship arrangements. Business visa applicants with the requisite letter of sponsorship from a Saudi individual or company normally receive visas in three days; however, to be safe, allow two to three weeks for delays. For Australian citizens, normally domiciled in Australia, visas cannot be obtained outside Australia
- Yemen – business travel visas must be arranged in advance with a sponsor, and a letter from the traveller's company must indicate the purpose of the visit. The Yemeni Consulate General in Dubai or Yemeni Embassies in Abu Dhabi, Riyadh, Kuwait, Qatar, Bahrain, Tehran or Muscat issue visas. Visas cannot be issued in Australia as Yemen maintains non-resident diplomatic relations with Australia, conducted from the Yemeni Embassy in Tokyo.

Note: These regulations may change without warning, and only indicate visa conditions at the time this report was prepared.
Source: Department of Foreign Affairs and Trade, 2000; and Austrade, 2000.

KEY ISSUES FOR AUSTRALIAN BUSINESS

Markets of the Gulf region present considerable opportunities for Australian companies willing to invest time and money cultivating contacts and searching for niche areas of demand. Key guidelines for doing business in the region include:

- studying the market, being aware of cultural and structural differences and carefully planning market entry
- allowing time for business relationships and agreements to develop
- taking extreme care in selecting agents, distributors and joint venture partners, including thorough due diligence to minimise the possibility of legal action which can be time consuming, expensive and hard to win
- taking a medium term view (two to three years) to initial market entry, and a long term view to servicing clients to maintain markets.

Appendix Table 3.1

Gulf Business Regulations

Saudi Arabia	
Corporate income tax	Sliding scale of 20 to 30 per cent for foreign firms, depending on the level of profit, although tax treatment favours lower foreign equity stakes. Tax holidays from five to ten years, if Saudi equity is greater than 25 per cent. Saudi and GCC firms pay *zakat* (Islamic alms requirement) in lieu of corporate income tax
Capital gains tax	Aggregated and taxed as regular income
Withholding tax	Applies to payments to non-residents, charged at corporate income rates on deemed profit of 15 per cent of the transaction's value
Personal income tax	Nil
Wholesale or point of sale tax	Nil
Social security/payroll tax	Employer pays 8 per cent levy and employee pays 5 per cent. Both Saudi and foreign staff pay a 2 per cent hazard levy
Foreign exchange controls	Nil
Labour supply	With the shortage of skilled workers, guest workers are common. Saudiisation of the workforce is a key priority, and businesses employing foreign nationals must increase Saudi employment by 5 per cent per year
Staff overtime/bonuses	48 hour week. Foreign employees invariably receive housing allowance and annual employer funded home leave
Staff leave	15 day minimum; longer periods common
Staff dismissal	Three month probationary period, severance payment of two weeks' pay for every year of service up to five years, one month thereafter
Employee health cover	8 per cent employer levy, 5 per cent employee levy and 2 per cent accident insurance payable by employee
Labour issues	Unions not permitted and strikes banned
Accounting principles	International standard
Foreign land ownership	Not permitted, but under consideration
Banking services	Small and sophisticated, with foreign banks well represented via joint ventures

The UAE	
Corporate income tax	Nil at federal level (except for oil, gas and banking sectors)
Capital gains tax	Nil at federal level
Withholding tax	Nil at federal level
Personal income tax	Nil
Wholesale or point of sale tax	Dubai municipality levies a 5 per cent tax on rent and leases
Import duties	0 to 5 per cent
Social security/payroll tax	Nil. Mandatory public health care card costs a nominal fee
Foreign exchange controls	Nil
Labour supply	With the shortage of skilled workers, guest workers are common. Visas usually, though not always, are available. Emiratisation of the workforce is a key priority in service sectors
Staff overtime/bonuses	Generally 48 hour week, with set overtime and bonus rates subject to individual workplace agreements
Staff leave	30 working days per year
Staff dismissal	Severance payments of 21 days pay for every year of service up to five years, 30 days thereafter
Employee health cover	Good quality, state provided care for nationals and residents. Employers to supply any additional cover
Labour issues	Unions not permitted and strikes unheard of
Accounting principles	International standard
Foreign land ownership	Not permitted but leasehold arrangements under consideration
Banking services	Quite sophisticated, with foreign banks well represented. The UAE is becoming a regional banking centre
Stock/financial markets	Newly opened stock exchange in Dubai, soon to be extended to Abu Dhabi

Iran	
Corporate income tax	Complex and as deemed by authorities; not based on company records
Capital gains tax	As for corporate income tax
Withholding tax	Varies according to type of payment
Personal income tax	Expatriates pay 50 per cent of deemed income
Wholesale or point of sale tax	Nil
Social security/payroll tax	Employers pay 23 per cent and employees pay 7 per cent
Foreign exchange controls	Strict. Converting local currency to hard currency is complex
Labour supply	Some shortages of local staff in high technology or other skilled areas; otherwise good local labour supply and high unemployment
Staff overtime/bonuses	Yearly bonus of one month's salary
Staff leave	Three weeks per year
Staff dismissal	Theoretically difficult; although foreign companies manage to hire and dismiss staff, they must pay end of service indemnity
Employee health cover	Provided by the state
Labour issues	Unions and legally organised strikes permitted, although uncommon
Accounting principles	Theoretically, international standards apply
Foreign land ownership	Not permitted
Stock/financial markets	Effectively closed to foreigners

Bahrain	
Corporate income tax	Nil
Capital gains tax	Nil
Withholding tax	Nil
Personal income tax	Nil
Wholesale or point of sale tax	10 per cent municipality tax on rent and leases
Social security/payroll tax	For nationals, employers pay 10 per cent, and employees pay 5 per cent. For foreigners, employers pay 3 per cent
Foreign exchange controls	Nil
Labour supply	With some staff shortages in skilled areas, guest workers are common
Staff overtime/bonuses	48 hour week. Severance pay is 15 days' pay for each of the first three years, and one month per year thereafter
Staff leave	21 days after a year's service, and 28 days after five years' service
Staff dismissal	Difficult as employers must give adequate notice and pay end of service indemnity
Employee health cover	State provided
Labour issues	Generally peaceful
Accounting principles	International standard
Banking services	Very sophisticated, with many international banks in the local and offshore markets. Bahrain is a regional banking centre

Oman	
Corporate income tax	Omani firms pay 5 to 7.5 per cent depending on profits. Foreign firms with Omani participation pay 15 to 25 per cent. If Omani equity is less than 10 per cent, firms pay up to 50 per cent tax. Oil exploration and production firms are treated separately
Capital gains tax	Taxed as regular income
Withholding tax	10 per cent levy on firms without a permanent presence in Oman
Personal income tax	Nil
Wholesale or point of sale tax	Nil
Social security/payroll tax	Employers pay 8 per cent, employees pay 5 per cent and government pays 3 per cent
Foreign exchange controls	Nil. Public or limited liability companies must contribute 10 per cent of profits to a statutory reserve, similar to a withholding tax
Labour supply	With some shortage of skilled workers, guest workers are common
Staff overtime/bonuses	45 hour week. Severance pay of 15 days for first three years, one month for each subsequent year
Staff leave	Three to four weeks per year
Staff dismissal	Difficult to dismiss nationals, and strict severance pay requirements exist
Employee health cover	Employer pays 1 per cent levy
Labour issues	Disputes effectively unheard of
Accounting principles	International standard
Foreign land ownership	Not permitted
Banking services	Small and sophisticated, with foreign banks well represented

Kuwait	
Corporate income tax	Kuwaiti and GCC firms pay no tax. Foreign firms pay from 5 to 55 per cent tax, depending on profit levels
Capital gains tax	Nil
Withholding tax	Nil
Personal income tax	Nil
Wholesale or point of sale tax	Nil
Social security/payroll tax	Payable for Kuwaiti employees
Foreign exchange controls	Nil. Public or limited liability companies must contribute 10 per cent of profits to a statutory reserve
Labour supply	With a significant shortage of skilled workers, guest workers are common
Staff overtime/bonuses	Most companies pay annual bonuses, and overtime ranges from 25 to 200 per cent of basic salary
Staff leave	14 days for the first year of service; 21 days after five years' service
Staff dismissal	Must give one month's notice with reasonable cause. No severance pay requirements
Employee health cover	Provided by the state
Labour issues	Unions are legal; membership is optional
Accounting principles	International standard
Foreign land ownership	Not permitted
Banking services	Relatively sophisticated, with many foreign banks operating

Qatar	
Corporate income tax	Foreign company profits and dividends are taxed at 10 to 35 per cent. Tax exemptions are available for significant national development projects, or those involving considerable technology transfer
Capital gains tax	Aggregated and taxed as regular income
Withholding tax	Final payments are withheld, but offshore payments are exempt
Personal income tax	Nil
Wholesale or point of sale tax	Nil
Foreign exchange controls	Nil
Labour supply	With some shortage of skilled workers, guest workers are common
Staff overtime/bonuses	48 hour week. Severance pay is 15 days' pay for the first three years, one month for each subsequent year
Staff leave	Two weeks per year for up to five years' service, four weeks thereafter
Staff dismissal	One month's notice for up to five years' service, four weeks thereafter
Labour issues	Formal arbitration mechanisms exist; strikes are permitted but are uncommon
Accounting principles	International standard. Accrual
Foreign land ownership	Not permitted
Banking services	Small and sophisticated, with foreign banks well represented

Source: Most of the information contained in the above tables came from Ernst and Young's Middle East website, www.eyme.com/section/doing_business/index.htm, accessed on January 14,15 and 16, 2000; additional information was provided by Austrade following interviews with Senior Trade Commissioners in the Gulf region in January 2000.

REFERENCES

Atkinson, S. and Dixon, J., 2000, East Asia Analytical Unit interview with Director and Manager Global Project Finance, ANZ Investment Bank Bahrain, May.

Austrade, 2000, 'Report to the East Asia Analytical Unit on the Gulf Business Environment', February.

AWB Limited, Information supplied to the East Asia Analytical Unit, July.

Bakhtari, H., 1995, 'Cultural Effects on Management Style: a Comparative Study of American and Middle Eastern Management Styles', *International Studies of Management and Organisation*, Vol. 25, No. 3, pp. 97-118.

Belooshi, N., Rahman Saif, and Field, J., 2000, East Asia Analytical Unit interview with Executive Director Management Services, Director of Economic Research and Adviser, Banking and Finance, Bahrain Monetary Agency, Bahrain, May.

British Bank of the Middle East, 1997a, 'Sultanate of Oman', British Bank of the Middle East, Business Profile Series, eighth edition, Hong Kong and Shanghai Banking Corporation, Hong Kong.

___ 1997b, 'Bahrain', British Bank of the Middle East, Business Profile Series, eighth edition, Hong Kong and Shanghai Banking Corporation, Hong Kong.

Brodedelet, R., 2000, East Asia Analytical Unit interview with Country Manager, ABM Amro Bank, Bahrain, May.

Business Monitor International, 2000, 'Kuwaitis First', *Middle East Monitor - The Gulf*, June, p. 10.

Deacon, P., 2000, Information supplied to the East Asia Analytical Unit by Executive Director, Victorian Government Business Office, Dubai, May-July.

Department of Foreign Affairs and Trade, unpublished visa information, Canberra.

Economist Intelligence Unit, 1999a, *Oman 1999-2000 Country Profile*, EIU, London.

___ 1999b, *United Arab Emirates 1999-2000 Country Profile*, EIU, London.

___ 1999c, *Saudi Arabia 1999-2000 Country Profile*, EIU, London.

Elton, P, 1999, East Asia Analytical Unit interview with General Manager, Raywood Communications, Melbourne, June.

Ernst and Young, 2000, *Doing Business,* www.eyme.com/section/doing_business/index.htm, accessed on 14,15 and 16 January 2000.

Export Finance and Insurance Corporation, 2000, Schedule of Short Term Market Grades, www.efic.gov.au/markets/index.html, accessed on 30 May 2000.

Fisher, S. and Fisher, D., 1998, *Export Best Practice: Commercial and Legal Aspects*, Federation Press, Sydney.

Ghassan, Z., 2000, 'Social Customs in the Arab World', information provided by Manager, Middle East Region, Austrade, Canberra, available at www.dfat.gov.au/eaau/gulf.

Giller, S., 2000, East Asia Analytical Unit interview with President, Austanz, Melbourne, May-June.

Gulf Business, 2000, 'Expat Utility Charges Rise', *Gulf Business*, Vol. 4, No. 10, February, www.gulfbusiness.com/cgi-local/, accessed on 9 July 2000.

Gulf Cooperation Council, 1999, *Economic Bulletin*, Vol. 14.

Harmsworth, B., 2000, Information provided to the East Asia Analytical Unit by Manager, Al Mutaiwie Trading, Dubai, June.

Hashem, W., 2000, East Asia Analytical Unit interview with Executive Director, Talal Abu-Ghazaleh, Certified Public Accountants and Management Consultants, Abu Dhabi, May.

Hong Kong Shanghai Banking Corporation, 2000, 'Qatar', Hong Kong Shanghai Bank, Business Profile Series, tenth edition, Hong Kong and Shanghai Banking Corporation, Hong Kong.

Jeffreys, A. (ed.), 2000, *Emerging Emirates 2000*, Oxford Business Group, London.

McLaren, C., 2000, East Asia Analytical Unit interview with Managing Director, Johnson and Johnson Medical Middle East, Dubai, May 2000.

Moody's Investor Service, 'Ratings and Ratings Actions', www.moodys.com/ratings/ratuse.htm#longterm, accessed on 10 July 2000.

Moore, D., 2000, Information provided by Chairman of the Victorian Chapter of the Arab Australia Chamber of Commerce and Director, Independent Corporate Solutions, Melbourne, August.

Nangia, A., 2000, East Asia Analytical Unit interview with Regional General Manager, ANZ Grindlays Bank, Dubai, May.

US Department of State, 2000, 'FY2000 Country Commercial Guide', prepared by US Embassy Abu Dhabi, released by Bureau of Economic and Business Affairs, US Department of State at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

Wilkinson, S., 1998, 'Small Business, Big Decisions', *Gulf Business*, Vol. 3, No. 8, December, www.gulfbusiness.com.cgi-local/, accessed on 9 July 2000.

Williams, J., 1998, *Don't They Know It's Friday? Cross Cultural Considerations for Business and Life in the Gulf,* Motivate Publishing, London.

World Bank, 1999, *Entering the 21st Century: World Development Report 1999/2000*, World Bank, Washington DC.

FOREIGN INVESTMENT

KEY POINTS

- **Huge surpluses generated from oil revenue and restrictive foreign direct investment, FDI, regimes mean FDI has been a less significant capital source for the Gulf economies than for East Asia.**

- **Progress in liberalising FDI restrictions is slow, but Qatar, Oman and recently, Saudi Arabia, lead reform. Important constraints on FDI across the Gulf region include restrictions on full foreign ownership outside the free trade zones, prohibitions on investing in many sectors (particularly oil), restrictions on both domestic and foreign competition in key infrastructure, energy and manufacturing sectors, and imprecise and inconsistently applied regulatory frameworks.**

- **However, opportunities for large scale foreign involvement are greater in the region's huge emerging gas industry than in oil, although some Gulf economies with smaller, less profitable oil resources are keen to attract more foreign investment.**

- **Infrastructure needs in the Gulf economies are massive. The greatest foreign participation opportunities are in pipeline construction, electricity and water. Dominant state owned monopolies constrain opportunities in the telecommunications sector, although World Trade Organization, WTO, driven liberalisation is yielding significant market opening in Oman.**

- **Key triggers to improve the foreign investment environment include further reforming regulations governing FDI in Saudi Arabia (the Arabian Peninsula's dominant economy), increasing regional economic integration and lifting US sanctions on Iran.**

Since the first oil shock, foreign direct investment, FDI, has been a relatively minor capital source for Gulf economies. Most foreign participation has involved building productive facilities and providing services under contract, rather than through FDI. However, rapid population growth, burgeoning infrastructure requirements, diversification of economic activity away from oil, growing fiscal pressures and the desire to access new technologies are driving many regional governments to more actively seek FDI.

This chapter examines regional FDI policies, developments in FDI liberalisation, trends in key sectors receiving FDI, emerging FDI opportunities and major influences on the FDI outlook.

REGIONAL FDI POLICIES

Compared to East Asia, Gulf economies are relatively closed to FDI. Key features of Gulf FDI regimes include:

- the difficulty of having effective full foreign ownership outside free trade zones
- the requirement for majority local equity in many types of business, including distribution
- prohibition on FDI in the upstream oil sector (in Saudi Arabia and Kuwait), inability of new oil companies to enter the oil industry (in the UAE) or severe restrictions on foreign company involvement in the oil sector (Iran)
- imprecise and inconsistently applied regulatory frameworks.

Oman, Qatar and Saudi Arabia are progressing most towards liberalisation (Table 4.1). Furthermore, the need for rapid economic growth, the desire to diversify economic activity, growing fiscal pressures and burgeoning infrastructure requirements are likely to drive further opening of FDI regimes in the short to medium term. (See Chapter 1 - *Economic Prospects.*) Moreover, in April 2000, the Saudi Government announced measures to make full foreign ownership easier. Effectively implementing these reforms, including clearly indicating where FDI remains prohibited, should encourage more rapid reform in smaller Arabian Peninsula economies, particularly the UAE.

Table 4.1

Full Foreign Ownership Remains Elusive

Regional FDI Regimes

Economy	Key FDI Regulations
UAE	Representative offices, branch offices for export marketing and establishments in free trade zones can be 100 per cent foreign owned. Other firms must have a majority local partner, although the local partner need not be active, and profits need not be divided on the basis of formal ownership percentages. Foreign investment is prohibited in real estate, trading companies, agency companies, many service sectors and quasi state monopolies such as the telecommunications company, Etisalat. The UAE has the region's strongest intellectual property protection, and offered foreign investors minority shares in two build, operate, transfer projects in the electricity industry.
Saudi Arabia	Commercial agencies must be Saudi owned and the upstream oil sector is off limits to foreign companies. In January 1999, Saudi Arabia created the Supreme Petroleum and Mineral Affairs Council, separate from the Saudi Arabian Oil Company, ARAMCO, to direct post-production energy policy. In 2000, the Government established a new investment regulatory body, the General Investment Authority. Subject to all appropriate documents being lodged, it will process applications within 30 days. Until April 2000, foreign equity in the industrial sector was limited to 49 per cent. While in principle full foreign ownership was allowed in other sectors (except oil), wholly foreign owned firms could not bid for government contracts or access cheap credit or tax concessions. Proposals approved by the Council of Ministers in April 2000 allow foreign investors to wholly own projects and industrial property. These proposals also allow wholly owned foreign companies to access tax holidays and concessional finance in other sectors, making full foreign ownership more feasible.[1] However, to access government contracts, firms still need to be at least 50 per cent locally owned. Moreover, FDI remains constrained by a lack of detail on exactly which sectors are barred from foreign investment and by a lack of detailed implementing regulations. With revised corporate tax rates, the top marginal tax rate for foreign firms of 45 per cent of net profit has fallen to 30 per cent.

1 The previous regulations required at least 25 per cent Saudi ownership to qualify for favourable loans from the Saudi Industrial Development Fund and five year tax holidays (ten years in agricultural or manufacturing sectors).

Table 4.1 continued

Full Foreign Ownership Remains Elusive

Regional FDI Regimes

Economy	Key FDI Regulations
Iran	In principle, FDI is allowed, subject to 51 per cent local ownership. However, in practice, approved FDI is negligible. Opportunities largely are limited to service contracts and buy-back arrangements.
Kuwait	Foreign firms are limited to 49 per cent ownership, unless they are legally registered as a local limited liability company. As in Saudi Arabia, foreign companies cannot invest in the upstream oil sector.
Bahrain	Full foreign ownership is permitted particularly among firms operating exclusively offshore, such as offshore banks, and for insurance, engineering, construction, trading and financial companies, and among industrial or service companies using Bahrain as a regional distribution centre. In all other cases, firms must be 51 per cent locally owned.
Qatar	In early 2000, Qatar increased allowable foreign ownership from 49 to 100 per cent in agriculture, industry, energy, tourism, natural resources and mining, provided projects are consistent with national development priorities.
Oman	Oman allows 70 per cent foreign ownership of most economic activities, subject to government approval. It also treats domestic and foreign firms equally for tax purposes.
Yemen	Full foreign ownership is permitted, except in the petroleum industry, where production sharing agreements and state participation limit foreign equity to 49 per cent.

Source: Business Monitor International, 2000a and 2000b; Fawzi Al-Khatib and Malki, 2000; Economist Intelligence Unit, 1999a; and British Bank of the Middle East, 1997a and 1997b.

REGIONAL FDI LEVELS

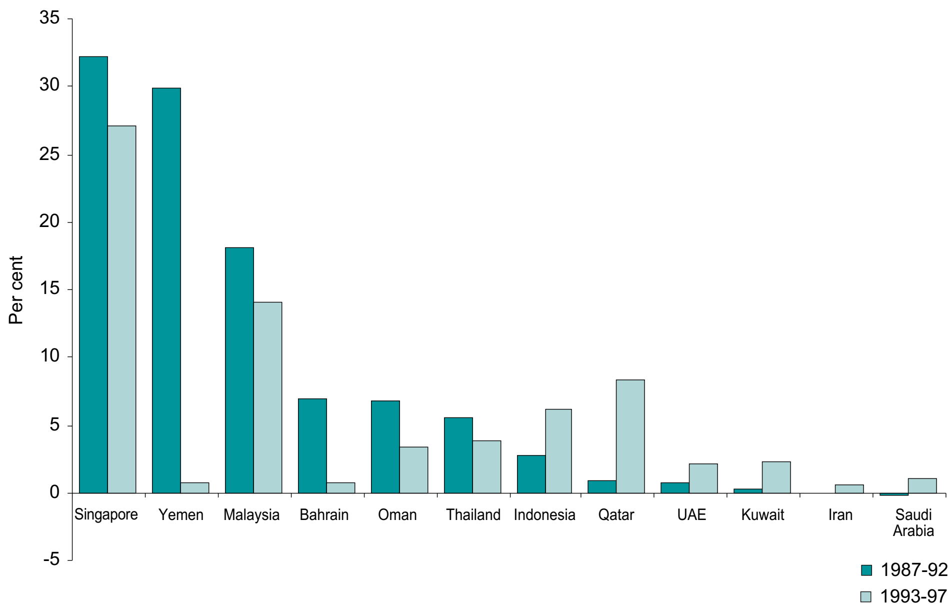
FDI is not a major capital source for most Gulf economies, although at various times, some smaller economies found it important (Figure 4.1). Relatively low FDI inflows primarily reflect policies prohibiting foreign investment in the oil sector and curtailing full foreign ownership of the most productive projects and land, as well as uncertainty about domestic legal and regulatory frameworks.

Saudi Arabia has the highest actual annual FDI inflows, averaging around US$600 million per year between 1993 and 1998, followed by the UAE and Iran (Figure 4.2). It is in these economies FDI inflows have increased most compared to between 1987 and 1992 (Figure 4.2).

Figure 4.1

FDI Lower in Gulf Region than East Asia

FDI as a Percentage of Gross Fixed Capital Formation, 1987-92 and 1993-97, Annual Averages



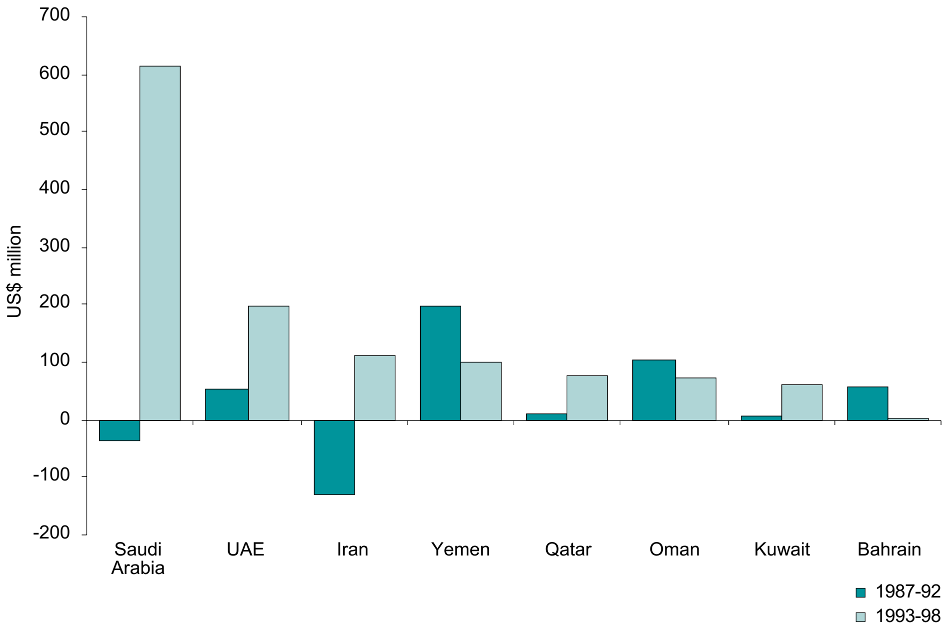
Note: Data for Iran also includes buy-backs expenditure, which is not FDI as it does not involve taking an equity share.

Source: United Nations Committee for Trade and Development, 1999.

Figure 4.2

FDI Levels Are Low

FDI in Gulf Economies, 1987-92 and 1993-98, Annual Average



Note: Data for Iran include buy-backs expenditure, which is not FDI as it does not involve taking an equity share.

Source: United Nations Committee for Trade and Development, 1999.

FDI DRIVERS IN INDIVIDUAL GULF ECONOMIES

Overall, continued FDI restrictions mean joint ventures and free trade zone investments dominate FDI in Gulf economies. However, the need to upgrade and install infrastructure across the oil, gas, pipelines, electricity, water and telecommunications sectors is driving FDI reform and expanding opportunities for foreign capital.

Saudi Arabia

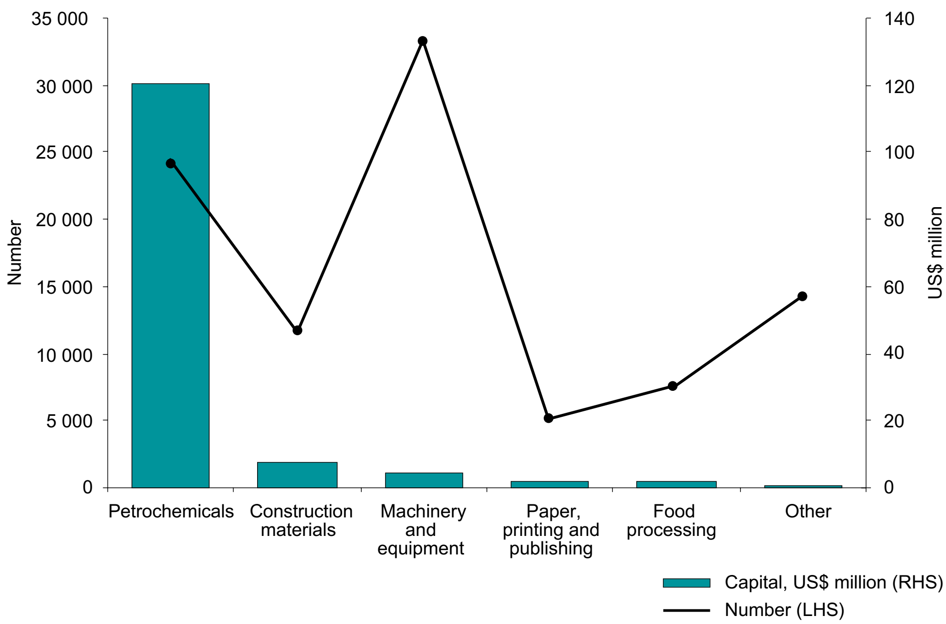
Virtually all FDI flows into Saudi Arabia are joint ventures; by value, most are petrochemical projects (Figure 4.3).[2] Outside the petrochemical sector, smaller projects supply either the local market or niche export markets. Offset arrangements, whereby defence suppliers must invest a share of project funds in non-defence sectors are important, but this importance should decline as the Government seeks to ensure offset projects are profitable.

[2] These petrochemical joint ventures are mostly with the Saudi Arabian Basic Industries Corporation.

Figure 4.3

Chemicals and Plastics Dominate Saudi Joint Venture Investment

Sectoral Distribution of Saudi Joint Ventures, Cumulative,1997



Source: Saudi Consulting House, 1999.

The UAE

The UAE's successful free trade zones and vigorous efforts at economic diversification have created FDI inflows which are a higher share of total investment than those of Saudi Arabia and Iran (Figure 4.1). Firms located in free trade zones can be fully foreign owned, and include many distribution and processing facilities. Foreign investment in the oil sector is longstanding, and recently, some foreign firms began to privately provide electricity generation infrastructure. Offset arrangements also are important; since 1992, sectors including aircraft maintenance, education, health, agriculture, financial services and aquaculture, have received offset investments of US$550 million (Jeffreys, 2000, pp. 87-92).

Iran

Despite Iran's 49 per cent ceiling on foreign equity and its negligible actual FDI approvals, between 1993 and 1998, around US$100 million per year of foreign funds flowed into its oil sector. Iran's fiscal problems stimulated these inflows, as the Government was forced to permit the National Iranian Oil Company to seek international finance to develop offshore hydrocarbon resources.[3] To avoid giving

[3] Fiscal problems arose primarily as low oil prices coincided with massive reconstruction costs following the Iran-Iraq war.

foreign firms equity, petroleum projects are tendered on a buy-back basis, with foreign partners arranging finance and construction, and being repaid in dollar denominated crude oil deliveries once the project commences operation (Economist Intelligence Unit, 1999d). Total, Shell and Petronas (Malaysia) already participate in these buy-back agreements. In November 1999, Royal Dutch Shell Group signed buy-back contracts for the Soroush and Nowruz oil fields, which will cost around US$800 million to develop (Royal Dutch/Shell Group of Companies, 2000; and *Tehran Times,* 15 November 1999).

Other Gulf Economies

In most other Gulf economies, individual projects dominate FDI trends. Major FDI events include Kuwait's post war reconstruction (now largely completed), Qatar's development of the large North gas field, Oman's liquefied natural gas, LNG, development and production and development of power, telecommunications and pipelines infrastructure, and Yemen's World Bank assisted structural adjustment privatisation program.

SECTORAL FDI OPPORTUNITIES

The oil and gas sectors dominate most regional economies, and attract most FDI interest, both from major international oil companies and smaller energy companies and contractors. In several Gulf economies, new opportunities also are opening up in the mining, infrastructure, financial, manufacturing, distribution and service sectors. (See also Chapter 2 - *Australian Opportunities*.)

OIL SECTOR INVESTMENT

Despite 1970s oil facility nationalisations in Iran, Saudi Arabia, Bahrain, the UAE, Kuwait and Qatar,[4] Gulf economy markets remain extremely attractive for international oil companies due to their low production costs, massive reserves, and the opportunity to increase exploration and often, production efficiency.

Upstream Opportunities

Opportunities to participate in upstream oil sector drilling and production remain extremely limited in the key oil producers, Saudi Arabia, Kuwait, Iran and Abu Dhabi, UAE. In particular:

- Saudi Arabia does not allow foreign participation; the state owned oil company, ARAMCO, retains exclusive rights over oil exploration, drilling and production
- Kuwait bans foreign companies from owning natural resources, although the Government currently seeks to implement a policy permitting international oil companies to develop the Northern oil fields on a 20 year contract

[4] Until the 1970s, the major international oil companies dominated oil production in most regional economies. In Iran, Saudi Arabia and Kuwait, total nationalisation occurred. In Bahrain, the UAE and Qatar partial nationalisation occurred.

- Iran only allows participation in oil field development on a buy-back basis
- In Abu Dhabi, major international oil companies including British Petroleum, Shell, Mobil, Total and Exxon have minority shares in three state controlled oil and gas companies, with other international companies locked out of production.[5]

The region's smaller oil producers offer more diverse foreign investment opportunities in the upstream oil sector. For example, Petroleum Development Oman, the largest producer in Oman, which has small, geologically complex fields, is 40 per cent foreign owned, with the remaining share state owned.[6] Furthermore, in 1997, Occidental Petroleum of the United States, Novus Petroleum of Australia and Japex of Japan produced 21 million barrels of crude, or 6.3 per cent of total production (Economist Intelligence Unit, 1999a).

Terms for foreign companies in the Yemeni oil sector, with its relatively small reserves by Gulf standards, improved dramatically in the late 1990s. For new fields, companies now can claim 50 to 70 per cent of oil earnings to recover development costs, compared to 25 to 45 per cent previously (Economist Intelligence Unit, 1999b).[7]

Downstream Opportunities

In the downstream oil sector, opportunities largely are confined to contractual work and financing assistance for state owned oil companies. For example, Kuwait is calling for bids from eight international oil companies to construct an oil pier at the country's largest refinery. Oman is receiving bids to construct a refinery at Sohar, and Iran has expanded its buy-back program to refinery development.[8] Financing major oil sector developments also provides many opportunities; for example, Citibank is financial adviser for the US$800 million expansion and refurbishment of the state owned Bahrain Petroleum Company's Sitra refinery and is arranging a syndicated loan to cover 75 per cent of project costs (Economist Intelligence Unit, 2000a).

However, over time, joint venture opportunities are likely to increase as expansion of the refining sector accelerates, and as emphasis on producing higher value products increases. One promising development was the September 1998 Saudi invitation to 18 major foreign oil and energy companies to submit investment proposals in Saudi Arabia's downstream oil sector and upstream and downstream gas sectors; the gas sector is emerging as a main area of focus.

---

5 These companies are the Abu Dhabi Company for Onshore Oil Operations, ADCO; the Abu Dhabi Marine Operating Company, ADMA-OPCO; and the Zakum Development Company. The Abu Dhabi National Oil Company, ADNOC is wholly state owned.

6 Foreign companies holding the 40 per cent share are Royal Dutch Shell, Total and Partex (Economist Intelligence Unit, 1999a).

7 In 1999, Yemen's proven recoverable oil reserves were around 1.7 billion barrels compared to 261.5 billion in Saudi Arabia and 96.5 billion in Kuwait.

8 However, the project to reconstruct Iran's largest refinery at Abadan (bombed in the Iran-Iraq war) has attracted little investor interest to date.

AUSTRALIAN RESOURCE COMPANIES ACTIVE IN THE GULF REGION

BHP Petroleum

BHP Petroleum, BHPP, has been involved in the Iranian oil and gas sector since 1994, and has undertaken several feasibility studies regarding establishing long term strategic partnerships with the National Iranian Oil Company and the National Iranian Gas Company. BHP opened a representative office in Tehran in 1999. Projects BHPP is considering include a gas pipeline between Iran and Pakistan, construction of LNG export facilities, and buy-back oil production projects. BHPP also is participating in an Iranian gas resource assessment study, and is committed to assisting Iran develop its world class petroleum resources.

Novus Petroleum

Novus Petroleum, an Australian based and owned oil and gas exploration and development company, uses its regional office in Dubai to target smaller oil and gas resources in the Middle East and South Asia which do not attract major oil company attention, but which are viable given current technology. It operates a small gas field off Oman, producing 3 000 barrels of gas and condensate per day to supply the northern UAE. It also is negotiating to develop a potentially larger field straddling the border between Oman and Iran, and is exploring an area off Qatar where it has a 25 per cent interest.

Source: BHP Petroleum, 2000; and Novus Petroleum, 2000.

GAS

Gulf governments are according increasing priority to developing the region's significant gas resources. (See Chapter 1 - *Economic Prospects*.) Here, prospects for large scale foreign involvement are brighter than in the oil sector for three key reasons:

- large scale, commercial gas production has only accelerated over the last decade, so in-country vested interests and state owned oil company expertise is weaker
- gas marketing, transport and processing challenges are all greater than for oil
- LNG processing facilities and gas pipelines are very expensive, providing an incentive for governments to seek foreign investors.

Already, foreign capital is helping to expand gas production in Qatar, Saudi Arabia and Oman.

Qatar

Two joint ventures underpin the rapid expansion of Qatar's large North gas field; one is between the Qatar General Petroleum Corporation and Total, Mobil, Mitsui and Marubeni, and the other is between Qatar General Petroleum Corporation and Mobil, the Korean Gas Corporation, Itochu and Nissho Iwai (Economist Intelligence Unit, 1999c). In addition, in early 2000, Elf and Enron became major partners on the Dolphin project, a proposed US$8 billion to $10 billion pipeline and industrial

DOLPHIN: A GIANT PROJECT

The Dolphin project proposal involves building a pipeline from Qatar's giant North field to Abu Dhabi, Dubai and Oman. The project aims to supply gas to meet projected shortages in these economies to generate electricity and fuel industries such as aluminium, steel and petrochemicals in new industrial zones. The project's projected cost to 2007 is between US$8 billion and $10 billion.

By mid 2000, this ambitious project was progressing well. The project's coordinators, UAE Offsets Group, have in principle support from the governments of Qatar, Abu Dhabi, Dubai, Oman and Pakistan.[9] UAE Offset Group also has secured contracts from several potential end users, and announced Elf and Enron as the project's major upstream and downstream developers. These developers are expected to create partnerships to invest in production, storage, distribution and generation facilities.

The major risk facing the project is possible failure to gain effective cross-border transport arrangements; in the past, this has proved difficult in the Gulf.

Source: Fawzy, 2000.

development project to transport and use Oman's North field gas. If it proceeds, the project will generate immense subcontracting opportunities, although its size and profile mean success will depend on high level lobbying and the ability to break into the consortiums bidding for large project blocks.

Saudi Arabia

Saudi ARAMCO's exclusive right to explore, drill for and produce gas was lifted in February 1999 and, following a September 1998 request from the Crown Prince, many foreign companies have submitted proposals for upstream and downstream gas development investments. Among the most attractive proposals are integrated 'wells to wires' projects which use gas from non-oil bearing fields to produce electricity (Miles, 2000).[10]

Oman

The Omani Government actively encourages private gas exploration outside the three existing non-associated gas fields Petroleum Development Oman and its foreign partners are developing. The most notable development is the early 1999 signing of a gas exploration deal between the Omani Government and Occidental Petroleum (United States), BP Amoco (United States and UK) and Fortum Oyj (Finland) to explore and develop several prospective areas for gas reserves. The accord provides for expenditure of US$25 million and production of seismic data for an area of at least 1 700 square

9 In July 1999, UAE Offsets Group, the Pakistani Minister of Petroleum and the Privatisation Commission of Pakistan signed long term supply contracts, contingent on the pipeline being extended to Pakistan, a medium term project goal.

10 Production of gas from non-oil bearing fields or 'non-associated gas' is attractive for electrical production as OPEC oil quotas do not affect it.

kilometres; any gas produced would supply the Sohar and UAE markets (Economist Intelligence Unit, 1999a). Downstream projects include a liquefaction facility being developed by Oman LNG and a range of foreign partners, with output sourced to Japan, the Republic of Korea and India.[11]

MINING

Of all the Gulf economies, Saudi Arabia and Iran have the largest mineral deposits. If foreign investor access improves, weaker nationalist sentiment than in the oil sector may open up opportunities for foreign companies.[12] Foreign involvement in the Saudi mining sector is negligible, although the mining code is under review (Miles, 2000). In Iran, some foreign companies are obtaining buy-back mining projects or contract work. For example, the Iran National Copper Industries Company, NICSICO, which operates Sar Cheshmeh, one of the world's largest copper deposits, engaged BHP Engineering in 1997 and 1998 to construct a smelter.[13] A Canadian firm has started gold mine operations in Iran's West Azerbaijan province, with other Canadian firms negotiating to develop zinc and gold deposits (Economist Intelligence Unit, 1999e).

INFRASTRUCTURE

Gulf governments recognise improved infrastructure is critical for the region's long term economic prospects and increasingly, they are considering private participation. (See Chapter 1 - *Economic Prospects*.) Key areas of need include electricity and water production and distribution, telecommunications and transport infrastructure. The need for fiscal stringency (regional governments have run budget deficits throughout the 1990s) and the inability of regional governments to fund infrastructure provision from oil revenue drive opportunities for private sector involvement. Unless oil prices remain above US$25 per barrel, only Kuwait can fund new electricity infrastructure from budgetary revenue alone (Atkinson, 2000).

Electricity

Analysts put the cost of new electricity infrastructure between 2000 and 2006 in Saudi Arabia, Iran, the UAE, Kuwait, Qatar and Oman at US$40 billion, with Saudi Arabia accounting for around US$20 billion and Iran requiring around US$8 billion (Figure 4.4). Beyond 2006, needs will increase further. For example, by 2020, Saudi Arabia's generating capacity may need to triple from 2000 levels to 70 000 MW (Business Monitor International, 2000c).

11 The Government of Oman holds a 51 per cent share in Oman LNG. Royal Dutch Shell is the largest foreign partner with a 30 per cent share. Other partners include Korea LNG, Partex of Portugal and Mitsubishi, Mitsui and Itochu of Japan (Business Monitor International, May 2000).

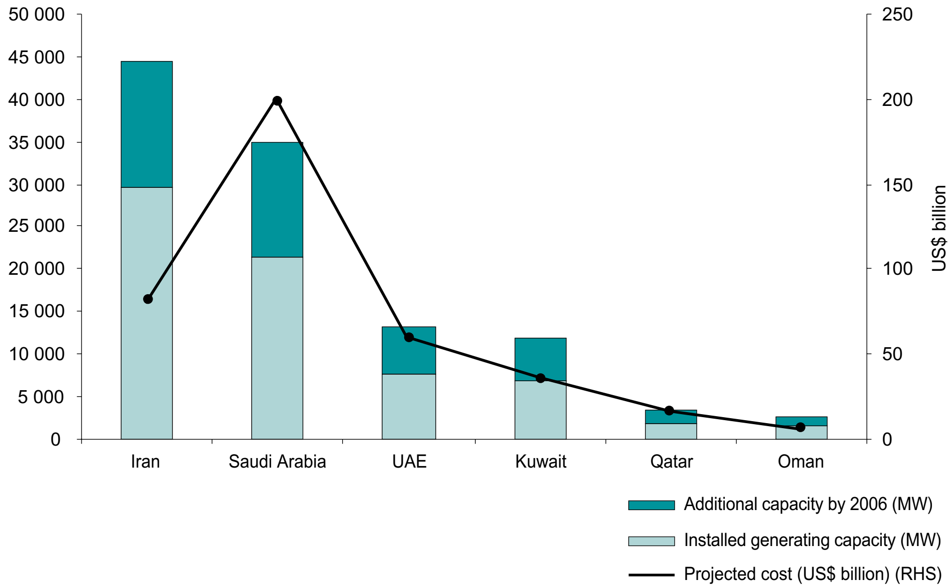
12 Saudi Arabia has substantial deposits of gold, iron ore, copper, phosphates, silver, uranium, bauxite, coal, tungsten, lead and zinc (Economist Intelligence Unit, 1999d). Major Iranian mineral deposits include copper, aluminium, lead, manganese and zinc, with copper production largest (101 000 tonnes in 1998) followed by zinc (76 500 tonnes) and aluminium (62 500 tonnes) (Economist Intelligence Unit, 1999e).

13 BHP Engineering was sold in December 1999 to the Hatch Group of Canada.

Figure 4.4

Electricity Infrastructure Requirements to Surge

Installed and Required Generating Capacity (MW) and Projected Cost



Source: Business Monitor International, 2000d.

Oman and the UAE lead private electricity generation. In 1994, Oman's 90 MW Al Manah power plant was the Middle East's first build, operate, transfer, BOT, power project. Oman also has called for tenders for the 240 MW Sharqiya build, own, operate, BOO, project and the 400 MW Barqa BOO project.[14] In the UAE, the Taweelah A2 project is underway in Abu Dhabi, with the Taweelah A1 project to follow. The US company, CMS Energy Corporation, is building the Taweelah A2 project, with 49 per cent equity in the company, and along with a French-Belgian TotalFina-Tractabel consortium, is shortlisted for the Taweelah A1 project (Business Monitor International, 2000c).

Despite its massive needs, Saudi Arabia is moving slowly to make private sector power provision more attractive. In August 1997, it gave power projects access to tax holidays and concessional funding, and in February 2000, it increased electricity tariffs and formed the Saudi Electricity Company by amalgamating regional power companies. Although the Government has not limited the Saudi Electricity Company's power sourcing, no major projects using foreign capital are underway yet. Saudi 'well to wire' gas projects remain the most prospective private power generation projects.

In Iran, despite large additional power requirements, most industry observers believe changes needed to allow private sector participation will take time (Atkinson, 2000).

14 The Barqa power plant also will produce 756 million litres of water per day.

Water

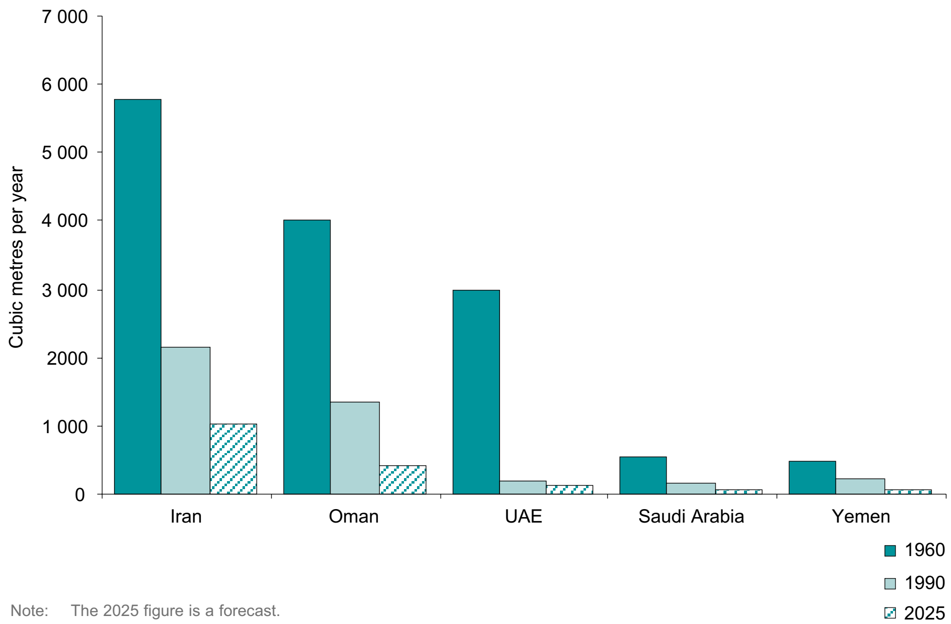
Foreign participation opportunities also are likely in water supply, as Gulf economies' per capita renewable water supplies are falling rapidly (Figure 4.5). Water mostly is produced through desalination, using heat from electricity generation. As desalination costs are falling steadily, private sector participation is increasingly viable.[15] Governments also seek private participation in waste water treatment.

Major water projects are underway in Kuwait and the UAE. In February 2000, five shortlisted Kuwaiti and international teams submitted bids for the 375 000 cubic metres per day, 20 year concession for the Sulaibiya waste water treatment plant in Kuwait; when completed, this plant will be one of the largest waste water BOTs in the world. In the UAE, the Taweelah A2 electricity generation project also will produce 189 million litres of desalinated water per day. The Taweelah A1 project requires developers to acquire an existing power station and desalination facility, and finance extensions to both.

Figure 4.5

Water Shortages Drive Opportunities

Renewable Water Resources per Capita, 1960, 1990 and 2025



Note: The 2025 figure is a forecast.

Source: *Middle East Economic Digest*, 28 January 2000, p. 8.

15 For example, in 1979, the delivery price of 1 cubic metre of desalinated water was US$5.50. By 1999, the cost including interest, capital recovery, operation and maintenance had plunged to US$0.55 (*Middle East Economic Digest*, 28 January 2000, p. 10).

While Iran's mountainous areas hold relatively large water reserves, Saudi Arabia is facing a sharp decline in its renewable water resources; Jeddah and other large cities already experience shortages. The Government has not announced any large water projects with major foreign involvement, although projects emerging from the ongoing negotiations with major oil companies could well involve water production alongside gas extraction and electricity generation.

JEDDAH: MAJOR SHORTAGES AHEAD

According to Dr Adel Bushnak, member of the Supreme Economic Council and the Jeddah Chamber of Commerce and Industry, Jeddah needs one million cubic metres of fresh water per day to solve its water shortages; existing resources cover only 40 per cent of requirements. He estimates by 2020, population and economic growth will push daily fresh water requirements to 3.5 million cubic metres. He anticipates over the next decade, Jeddah's water supply alone will need an investment of US$533 million per year.

Source: Atkinson, 2000.

Telecommunications

As in the rest of the world, telecommunications demand in the Gulf is exploding. In 1994, the Saudi Telecommunications Company installed 80 000 fixed lines per year; now it installs 80 000 fixed lines per month (Atkinson, 2000). To date, state owned monopolies dominate regional telecommunication markets; foreign investors may be limited to taking equity in existing state telecommunications companies as privatisation proceeds.[16] For example, Oman and Saudi Arabia aim to privatise state telecommunications companies, and foreign investors may be able to buy equity shares. The latest Saudi offer in WTO negotiations with the United States includes sale of a 20 to 40 per cent share in Saudi Telecommunications Company to a single foreign partner (Economist Intelligence Unit, 2000b).[17]

However, further liberalisation is in prospect. Most notably, under its WTO accession, Oman is progressively liberalising access to its telecommunications sector. (See Chapter 5 - *Trade*.) If other Gulf economies are to capitalise on electronic commerce and maximise telecommunication's potential to contribute to economic growth, many could recognise their need to further liberalise their markets along these lines, at least for mobile, international and Internet services.

[16] The UAE is slightly different as the telecommunications company, Etisalat, is publicly listed, although foreigners cannot yet own equity. However, Etisalat's monopoly currently is under serious review.

[17] The Saudi Telecommunications Company was corporatised as a first step to privatisation (HE Khalid ibn Mohammed Al-Gosaibi, 2000). The Omani Government is inviting strategic investment in the national telecommunications company as a precursor to its privatisation (HE Ahmed Bin Abdulnabi Makki, 2000).

PETROCHEMICALS

The desire for economic diversification, high oil and gas prices flowing through into petrochemical end markets and resurging Asian demand drive the region's rapidly expanding petrochemical industry.

While Saudi Arabia's new investment guidelines should allow 100 per cent foreign ownership of petrochemical projects, most existing foreign participation is through joint ventures. The Saudi Arabian Basic Industries Corporation, SABIC, remains a likely partner in all major projects; between 1998 and 2002, it plans to spend US$9 billion in joint ventures with foreign and domestic partners (*Middle East Economic Digest*, 24 March 2000, p. 16).

Abu Dhabi, UAE also is expanding its petrochemicals industry, while Oman's plans are less advanced.[18] These plans may open up new joint venture opportunities for foreign companies. The largest project is the US$1 billion Borogue polyethelene joint venture between Abu Dhabi National Oil Company and Borealis of Denmark (Economist Intelligence Unit, 1999f).

Another important development is the November 1999 signing of a letter of intent between National Petrochemicals Company (Iran) and Elenac (Germany) to construct a low density polyethylene plant; start up is scheduled for 2003.[19] The first Iranian foreign joint venture since the 1979 revolution, the project will have Elenac owning 55 per cent (Atkinson, 2000).

MANUFACTURING

Thus far, most foreign investment in Gulf economies' manufacturing sectors is in light manufacturing. However, increased investment is likely in the region's expanding heavy industry sector.

Heavy Manufacturing

In addition to the region's expanding petrochemicals industry, other types of heavy manufacturing are developing, using the region's cheap energy, abundant land, favourable tax regime and cheap expatriate labour. For example, the region contains two of the world's largest aluminium refineries, Dubai Aluminium, Dubal, and the Aluminium Company of Bahrain, ALBA.

Thus far, major heavy industry companies, such as Dubal, ALBA and SABIC, are majority state owned. However, opportunities may arise to increase foreign capital's role in aluminium, petrochemical and steel production, including electric arc furnaces and downstream rolling mills. Three main factors are likely to drive increased foreign involvement in heavy industry:

- firstly, if major gas pipelines, such as Dolphin proceed, the scale of investment required to establish downstream gas using heavy industry in aluminium, steel and petrochemicals may stimulate further interest in attracting foreign investment

[18] Oman's petrochemical industry expansion is delayed by the need to complete the Sohar gas pipeline to augment gas supplies and develop a range of industries to efficiently use the gas feedstock. (Economist Intelligence Unit, 1999a).

[19] Elenac is a joint venture between Royal Dutch Shell Group and BASF.

- secondly, major expansion in mining activity, particularly in Saudi Arabia or Iran which have the largest reserves, could create investment opportunities in minerals processing, given the availability of cheap energy and need for foreign expertise
- thirdly, as in the infrastructure sector, increased investment requirements may stimulate better regulatory and foreign access regimes.

Light Manufacturing

Foreign light manufacturing investment is concentrated in UAE free trade zones and Saudi joint ventures in food processing, paper, printing and publishing, and construction materials (Saudi Consulting House, 1999).

Tariff free imports, cheap labour and energy, and regional market access attract foreign light manufacturing investment to free trade zones, including Sony (electronics), Acer (electronics), Mannesmann Demag (small motor and gearbox assembler) and Clipsal (Australian electrical components maker). For example, Sony assembles many products in Jebel Ali before shipping them throughout the Middle East, to states of the former Soviet Union and to Africa, while Clipsal produces electrical and wiring accessories at Sharjah International Airport Free Zone to distribute throughout the Middle East (*Gulf Business*, 1999 and Clipsal, 2000).[20]

The proposed introduction of a common Gulf Cooperation Council, GCC, tariff and free trade between members in 2005 should increase access to the whole GCC market, thus increasing the region's attractiveness for light manufacturing investment.

DISTRIBUTION

International distribution sector investment is concentrated in UAE free trade zones. However, investment in ports is growing strongly across the region.

Free Zone Investment

Major region wide distribution operations run out of UAE free zones include BASF, Colgate-Palmolive, Johnson and Johnson, Samsung, LG and IBM. In addition, freight companies, Lufthansa, DHL, Federal Express and TNT Worldwide Express have major hubs in the UAE. Lufthansa's largest air cargo hub outside Germany is at Sharjah International Airport Free Zone.

Investment in New Ports

Large scale investment in new ports is region wide, often occurring as part of free trade zones. Major port upgrades are underway at Aden in Yemen, Salalah in Oman and Jeddah in Saudi Arabia. Of these upgrades, Salalah largely is funded through a joint venture between Maersk Sealand and the Omani Government, while the Aden upgrade is a joint venture between the Port of Singapore Authority and the Government of Yemen.

[20] In addition to these multinationals, many companies are from the UAE, India and Iran.

In addition, the UAE's ports and Bandar Abbas in Iran also have been upgraded. While Bandar Abbas has no foreign partner and Iran's trade regime is relatively closed, the port has good physical infrastructure and a direct customs bonded rail link with Turkmenistan, allowing access to states of the former Soviet Union.

FREE TRADE ZONES

UAE free trade zones are the most established in the region. Other notable free zones are in Oman, Yemen and Iran. Oman and Yemen are prospective as distribution hubs, but are yet to attract diverse investment, while the dubious legal status of foreign investment, which the constitution technically prohibits, constrains Iranian zones.

UAE

The UAE has major free zones in Dubai, Sharjah and Abu Dhabi, and smaller zones in the Northern Emirates. The highly successful Jebel Ali free zone focuses on light manufacturing and distribution, while Sharjah focuses on heavy industry. Current plans for the Saadiyat Island free zone proposed for Abu Dhabi focus on bulk commodities, with offshore banking services to support commodity trading, storage and transformation activities. The UAE also features airport free zones in Dubai and Sharjah; the Sharjah zone is a large air cargo hub between Asia and Europe.

All these zones offer a range of benefits including:

- 100 per cent foreign ownership[21]
- exemption from all import duties
- exemption from corporate tax
- no national agent requirement for branches of foreign companies (Jeffreys, 2000, pp. 118-20).

In addition, Dubai is developing a free zone for technology, e-commerce and media, the so called Internet City. While construction only started in early 2000, the Government's commitment to the zone's success is reflected in its decision to allow 100 per cent foreign ownership, provide 50 year guarantees on the ability to transfer capital and repatriate profit, and offer 50 year leases on land or offices. In addition, the zone's governing authority is not bound to use Etisalat, the UAE's monopoly telecommunications provider (Jeffreys, 2000, pp. 118-20; and Business Monitor International, 2000b). Thus far, Oracle has confirmed a move in its Europe and Middle East headquarters from Vienna to Dubai, with IBM and Sun Microsystems also negotiating to establish in the zone (Jeffreys, 2000, pp. 124-26).

[21] Investors must establish a branch office or single shareholder free zone establishment to be 100 per cent foreign owned (Jeffreys, 2000).

JEBEL ALI FREE TRADE ZONE

Jebel Ali in Dubai is the most successful free trade zone on the Arabian Peninsula, attracting over 600 international manufacturing, distribution, trading and processing companies. In addition to major multinationals, large GCC, Indian, Iranian and Russian companies and a range of Australian companies include:

- Alutech, which provides engineering and technology services for refurbishments and installations at Dubai's aluminium smelter
- Hunter Watertech, which produces measurement, process control and automation products for the agricultural, oil and gas sectors
- Worley Engineering, which undertakes engineering projects, primarily in the oil and gas sectors, and which recently shifted its international head office to Jebel Ali from Indonesia
- Orica Explosives, which has a local joint venture, Emirates Explosives.[22]

Factors distinguishing Jebel Ali from other free zones include its early establishment, well developed deepwater port, efficient management and proximity to Dubai's relatively large population (30 minutes by road).

Yemen

The Aden duty free zone is a joint venture between the Yemen Government and the Port of Singapore Authority, which has a 20 year management contract and 60 per cent project equity (*Gulf Business*, 2000). Aden only requires ships to deviate 2 nautical miles from established Europe-Asia sealanes, so it is ideal for distributing goods coming through the Suez Canal. However, after Yemen's mid 1990s civil war and recent kidnappings, it needs to establish credibility. Also Yemen's market size is small and infrastructure is weak compared to the UAE.[23] (See Chapter 5 - *Trade*.)

Oman

Echoing Omani traders' historic role, trade throughput through Salalah duty free zone is growing rapidly, due largely to a US$260 million joint venture between the Omani Government and Maersk Sealand. However, like Aden, Oman's internal market is small compared to the UAE. In addition, Salalah may experience competition from Aden, as Salalah requires a larger and more costly deviation from established Europe-Asia sealanes.

---

[22] Austrade's Dubai office supplied information on all these companies.

[23] The UAE's GDP of US$49 billion and per capita GDP of US$15 100 compare to US$14 billion and US$6 120 in Oman, and US$5.6 billion and US$340 in Yemen.

Iran

Iran has both free trade zones and special economic zones, which are industry focused and under the control of individual ministries. Kish Island free trade zone, in the middle of the Gulf, focuses on tourism, services, and light industry, but thus far has mainly attracted Iranian tourism investment. The Qeshm Island free zone, near the southern port of Bandar Abbas, lies adjacent to large gas fields, and is intended for heavy industrial, particularly petrochemicals and LNG investment. The Chahbahar free zone, which lies outside the Gulf, on the Indian Ocean, lies at the terminus of direct road and rail links between the Gulf and Central Asia.

Despite their undoubted promise, the Iranian free zones fail to attract significant foreign investment because of infrastructure deficiencies, the dubious legal status of foreign holdings and the United States Iran Libya Sanctions Act.[24]

Iran's special economic zones experience the same impediments as the free zones, but have superior infrastructure. The Al-Mahdhi zone, adjacent to Qeshm Island near the port city of Bandar Abbas, features excellent infrastructure for heavy industry development and seeks foreign investors for a large aluminium smelter and a steel manufacturing complex; both are operational but require further investment.

MAJOR INFLUENCES ON THE FDI OUTLOOK

While investment liberalisation is underway throughout the Gulf region, much remains to be done. Apart from oil price trends, key factors affecting the investment outlook include reform progress in Saudi Arabia, regional integration and the lifting of US sanctions on Iran.

Oil Price Trends

If oil prices remain above US$25 per barrel, government revenues will rise dramatically and reforms could slip, as foreign capital becomes less important. However, despite current high oil prices, major reform slippage is not apparent. For example, the Saudi Government recently finalised new tax rates for foreign companies and is proceeding to open gas and downstream oil sectors to foreign investment.

Reform Progress in Saudi Arabia

The Saudi economy's size and massive oil and gas reserves make its FDI reform progress critical to the Gulf's future investment environment. Continued progress in Saudi Arabia will trigger further reform elsewhere in the region; otherwise, smaller economies will struggle to compete for investment capital. Saudi accession to the WTO would raise the probability of further investment reform.

[24] Ongoing disputes within economic and political circles over the desirable level of foreign presence in the economy affect Iran's free zones. In addition, religious concerns centre on the more liberal social environment required to attract foreign investment to the zones.

Regional Integration

Increased regional integration would boost investment prospects by increasing the likelihood of competitive reform programs. Furthermore, successfully harmonising tariffs in the 5.5 to 7.5 per cent range would increase intra-regional trade flows and the attractiveness of establishing distribution centres and regional headquarters. Finally, reduced tensions between GCC economies and Iran would boost trade flows and increase the region's attractiveness to investors.

US Sanctions on Iran

US sanctions on Iran apply to both US and non-US firms investing more than US$20 million in Iran's oil and gas sectors in any year, although foreign companies can apply for exemptions. These sanctions expire in mid 2001 and their non-renewal would open the way for a wave of new investment in Iran.

CONCLUSIONS

Although much remains to be done, Gulf FDI regimes are improving gradually, led by Qatar, Oman and Saudi Arabia. Potential for large new foreign investment is greatest in gas, infrastructure, petrochemicals and heavy industry. In these rapidly growing areas, the single most important step that would increase foreign capital's contribution to economic activity is to move beyond selling shares in existing or privatising companies; instead, broad ranging reform implementation is required, allowing freer domestic and foreign competition, including 100 per cent foreign ownership in most sectors.

REFERENCES

Atkinson, S., 2000, 'Recent GCC Infrastructure Developments, Sector Needs and the Prognosis', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

BHP Petroleum, 2000, Information supplied to the East Asia Analytical Unit, May.

BP Amoco, 1999, *Statistical Review of World Energy*, London.

British Bank of the Middle East, 1997a, 'Sultanate of Oman', British Bank of the Middle East, Business Profile Series, eighth edition, Hong Kong and Shanghai Banking Corporation, Hong Kong.

___ 1997b, 'Bahrain', British Bank of the Middle East, Business Profile Series, ninth edition, Hong Kong and Shanghai Banking Corporation, Hong Kong.

Business Monitor International, 2000a, 'Saudi Arabia: Green Light for New Investment Laws', *Middle East Monitor*, May, pp. 2-3.

___ 2000b, 'Saudi Arabia: Heavy Going for Investment Reforms', August, pp. 2-4.

___ 2000c, 'UAE: Growth for All', *Middle East Monitor*, February, pp. 5-7.

___ 2000c, 'Saudi Arabia: Gas Rights and Wrongs', *Middle East Monitor*, July, pp. 2-4.

Clipsal, 2000, Information supplied to the East Asia Analytical Unit, May.

Economist Intelligence Unit, 2000a, *Bahrain*, first quarter, EIU, London.

___ 2000b, *Saudi Arabia*, first quarter 2000, EIU, London.

___, 1999a, *Oman 1999-2000 Country Profile*, EIU, London.

___ 1999b, *Iran 1999-2000 Country Profile*, EIU, London.

___ 1999c, *Qatar 1999-2000 Country Profile*, EIU, London.

___ 1999d, *Saudi Arabia 1999-2000 Country Profile*, EIU, London.

___ 1999e, 'Iran: Digging for Treasure', *Business Middle East*, accessed at www.eiu.com/latest/383568.asp on 4 August 2000.

___ 1999f, *United Arab Emirates 1999-2000 Country Profile*, EIU, London.

Fawzi Al-Khatib and Malki, 2000, 'Clarifying the Region's Strategy for Economic and Structural Reform', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Fawzy, H., 2000, 'Dolphin', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Gulf Business, 2000, 'Storming Ports', www.gulfbusiness.com, accessed on 27 June 2000.

___ 1999, 'Free but Not Always Easy', Vol. 3, No. 9, www.gulfbusiness.com, accessed on 27 June 2000.

HE Ahmed Bin Abdulnabi Makki, 2000, 'Progressive Initiatives and Developments of Project and Financing in Oman', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

HE Khalid ibn Mohammed Al-Gosaibi, 2000, 'Examining the Main Themes of the Saudi Economic Plan', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Jeffreys, A. (ed), 2000, *Emerging Emirates 2000*, Oxford Business Group, London.

Miles, S.R., 2000, 'Foreign Investment in Saudi Arabia's Energy Sectors', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Novus Petroleum, Information supplied to the East Asia Analytical Unit, May.

Royal Dutch/Shell Group of Companies, 2000, 'Shell and Iran', www.shell.com, accessed on 27 June 2000.

Saudi Consulting House, 1999, 'Saudi Economic Survey', Jeddah.

United Nations Committee for Trade and Development, 1999, *UNCTAD World Investment Report*, United Nations, New York.

TRADE POLICY AND PROSPECTS

KEY POINTS

- Oil dominates regional exports and oil prices drive imports. Historical import to oil price relationships suggest higher oil prices will generate 15 to 20 per cent import growth in 2000 and 2001. However, once oil prices stabilise or fall, OPEC quotas will constrain export and import growth.

- Reducing oil dependence is a gradual process but rapid gas export growth will assist it.

- Unlike exports, Gulf imports are diverse. Reflecting the oil industry's capital intensity, capital goods dominate all Gulf economies' imports. The UAE's entrepot role means consumer goods imports are particularly important for the UAE, while Iran's diverse economy and protectionist policies means intermediate product imports are important.

- The UAE is expected to remain the dominant Gulf entrepot, despite increased competition from Salalah in Oman and Aden in Yemen. Its re-exports are about four times the level of other non-oil exports, and between 1990 and 1998, doubled to US$11 billion.

- World Trade Organization, WTO, membership is driving reform in critical areas including intellectual property protection, agency arrangements, foreign investment equity restrictions, telecommunications market access, and agricultural trade policy.

The Gulf region has a long trading history. Its strategic location between Asia and Europe, and uneven distribution of arable land and fresh water put it on major trade routes from the earliest times, ensuring local tribes engaged in trade. In the eighteenth and nineteenth century, the Gulf region became a major transhipment point between Europe and Asia. Gulf economies are now the hub of the world's oil trade, supplying two thirds of globally traded oil.

This chapter examines the Gulf economies' recent merchandise trade developments and performance, highlighting the most dynamic sectors. It then analyses intra-regional trade and regional re-export centres. Finally, it examines regional trade reform progress, much induced by World Trade Organization, WTO, membership and membership applications, and assesses restraints to trade imposed by tariffs and non-tariff barriers.

THE IMPORTANCE OF TRADE IN THE GULF ECONOMIES

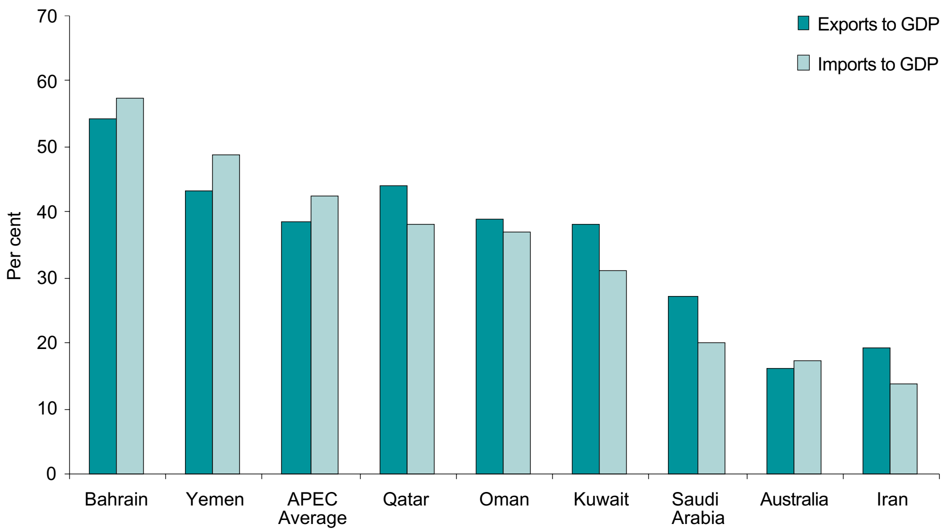
Oil dominates the Gulf economies' trade, dominating exports, providing feedstock for petrochemical non-oil exports and financing imports. However, trade's importance in economic activity varies considerably; it is most important in the UAE and Bahrain, and least important in Iran and Saudi Arabia (Figure 5.1). The UAE's high import levels largely reflect its role as an entrepot, while the main driver of Bahrain's imports is Saudi crude oil used by the Bahraini refining industry. Bahrain and the UAE also have large service exports. In Saudi Arabia and Iran, trade is less important because they have larger economies and they have more restrictive tariff and non-tariff barriers (see below). Nonetheless, in 1998, Saudi Arabia had the highest absolute exports at US$40 billion and the highest absolute imports at US$28 billion, followed by the UAE and Iran (Figure 5.2).[1]

[1] The export values for 1998, the latest available official statistics, are considerably lower than 1997 figures due to lower oil prices. For example, in 1997, Saudi exports were US$66 billion and Iranian exports US$21 billion.

Figure 5.1

Gulf Region Has Relatively Open Economies

Ratio of Merchandise Exports and Imports to GDP, 1998

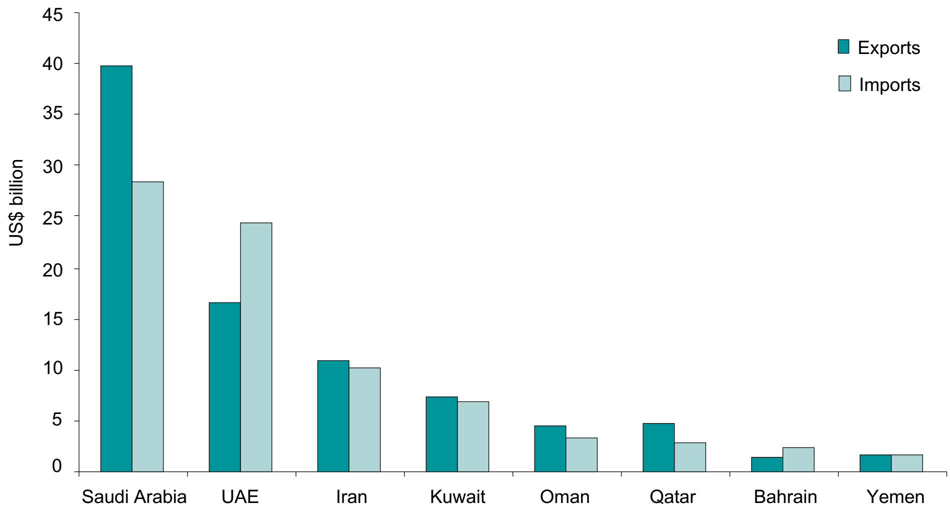


Source: Datastream, 2000; and Department of Foreign Affairs and Trade, 2000a.

Figure 5.2

Saudi Arabia, the UAE, Iran and Kuwait Dominate Regional Trade

Gulf Merchandise Exports and Imports, 1998, US Dollars



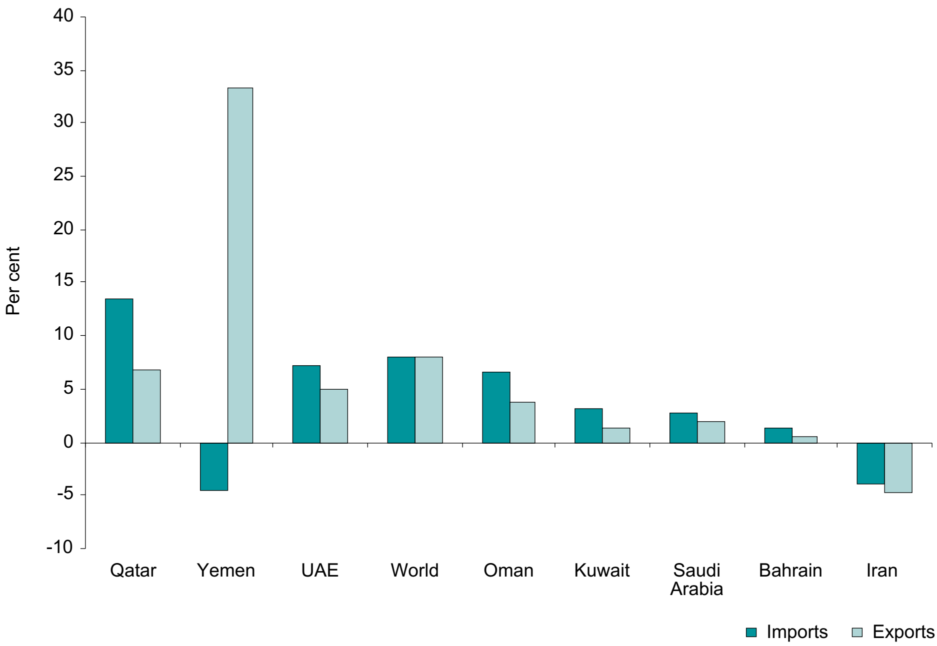
Note: International Economic Data Bank data for exports and imports were used for all economies except Saudi Arabia, where oil export data was clearly understated. Business Monitor International data were used for Saudi exports for 1998.

Source: International Economic Data Bank, 2000; and Business Monitor International, 2000a.

Figure 5.3

Gulf Trade Growth Slower than World Average

US Dollar Export and Import Growth, 1993-98, Per cent



Note: Data range was chosen to reduce the impact of the Gulf war.

Source: Business Monitor International, 2000a; Gulf Cooperation Council, 1999; and International Monetary Fund, 1999.

TRADE GROWTH

Between 1993 and 1998, most regional economies' trade grew slowly, well below the world average, due to their dependence on quota restricted oil (Figure 5.3). Export growth was strongest in the small economies of Qatar and Yemen, and the most dynamic import markets were Qatar and the UAE (Figure 5.3).

The Impact of High Oil Prices in 2000

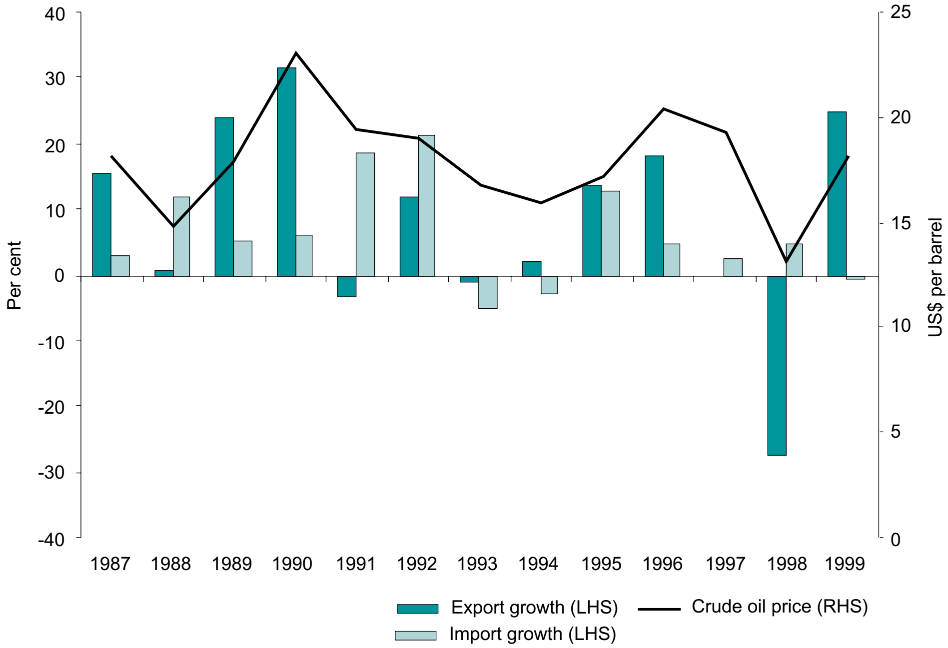
Oil prices rose rapidly from their low of below US$10 per barrel in December 1998 to over US$25 since December 1999; this expanded Gulf Cooperation Council, GCC, economies' exports by an estimated 25 per cent in 1999 (Figure 5.4). Effects on imports lag about a year, but on past experience, imports should grow 15 to 20 per cent in 2000 and 2001.[2]

[2] For example, following the oil prices of US$23 per barrel in 1990 and US$19.40 per barrel in 1991, import growth of 18.5 per cent was recorded in 1991, with growth of 21.1 per cent recorded in 1992.

Figure 5.4

Oil Prices Drive Exports and Imports

Oil Prices and Growth in Export and Import Values in GCC Economies



Note: 1999 export and import figures are estimates from Business Monitor International, 2000a.

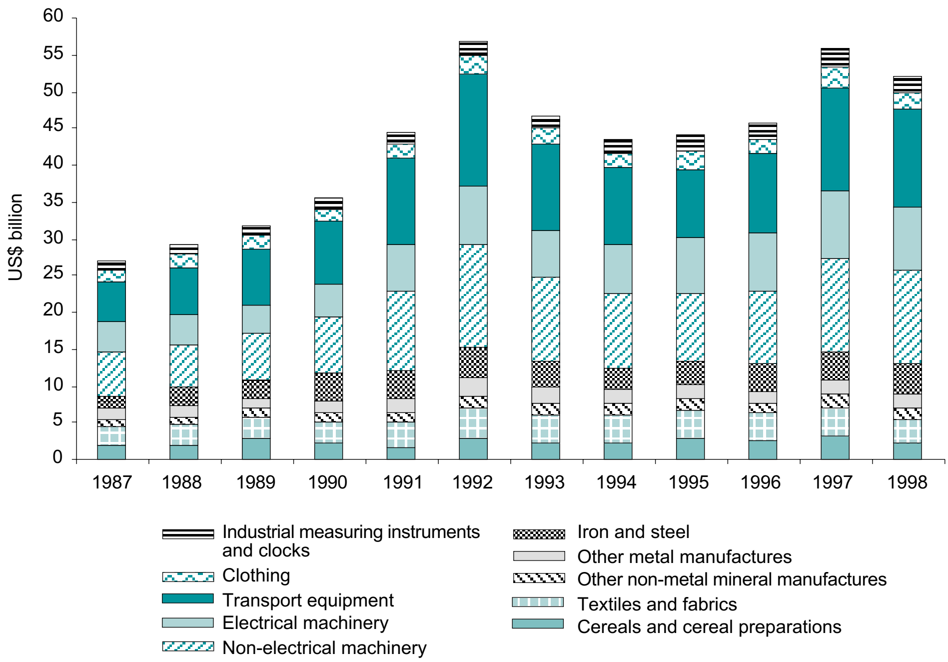
Source: Business Monitor International, 2000a; Gulf Cooperation Council, 1999; and International Monetary Fund, 2000.

Beyond 2001, despite diversification efforts, the export and import growth outlook will depend largely on oil price and production trends. Once oil prices stabilise or fall, OPEC quotas limit export growth, indirectly constraining import growth. Economic and export diversification will remain a gradual process, but rapidly growing gas exports, which predominantly are sold on long term contracts, should assist Qatar, Saudi Arabia, Oman, and in future, Iran, with their diversification efforts.

Figure 5.5

Little Change in Import Structure

Top Ten Gulf Merchandise Imports, 1987-98



Source: International Economic Data Bank, 2000; and Business Monitor International, 2000a.[3]

REGIONAL IMPORT DEVELOPMENTS

Gulf economy imports are highly diversified with the shares of capital, consumer, agricultural and intermediate goods imports, depending on income levels, demographic structure and the extent of economic diversification and re-export activity. Among the Arabian Peninsula economies, capital goods and consumer goods, including durables like cars, figure prominently. The top ten imports of the Gulf region have barely changed over the decade to 1998 (Figure 5.5).

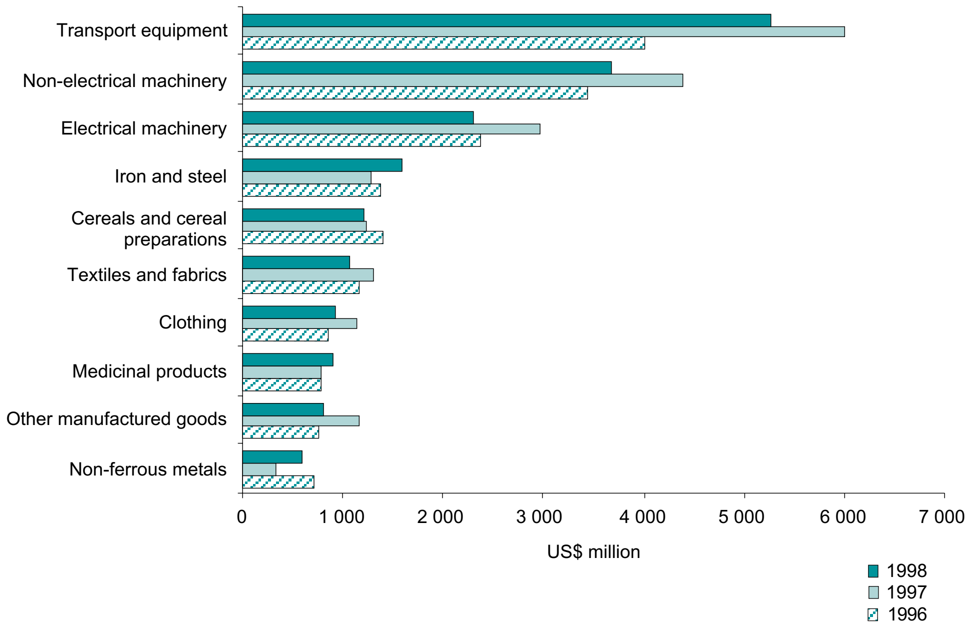
Except for Iran and Yemen, major Gulf economy imports include a mix of non-electrical and electrical machinery, transport equipment, iron and steel, general manufactures and foodstuffs. However, the pace of import growth varies considerably, and domestic considerations determine the precise import mix.

[3] International Economic Data Bank data for exports and imports were used for all economies except Saudi Arabia, where oil export data were clearly deficient. Business Monitor International data were used for Saudi exports for 1998.

Figure 5.6

Cars and Capital Goods Dominate Saudi Imports

Top Ten Saudi Imports, 1996-98



Source: International Economic Data Bank, 2000.

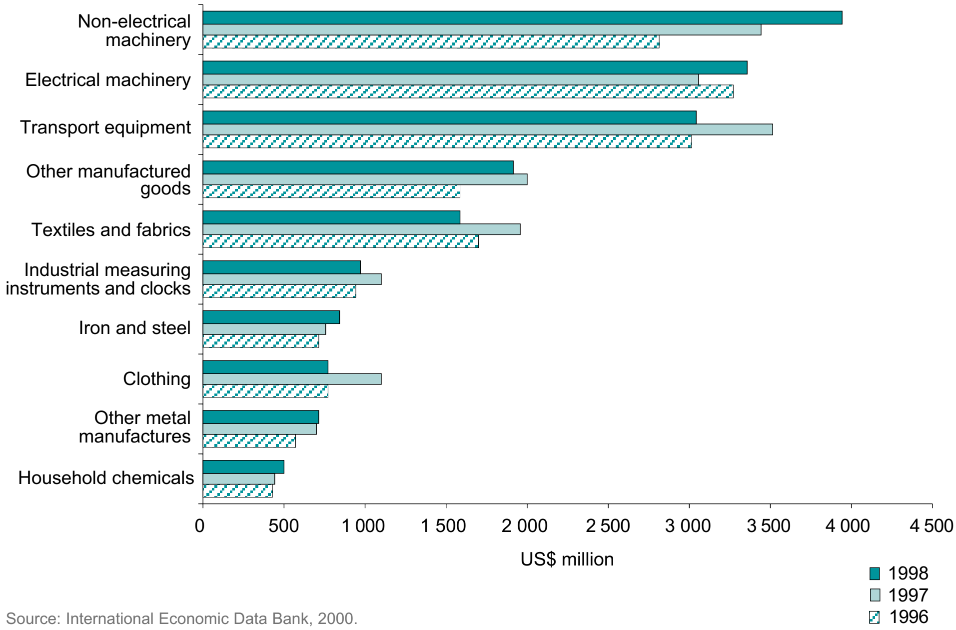
Saudi Arabia

While Saudi Arabia is the largest economy and importer in the Gulf region, importing goods worth US$28.4 billion in 1998, modest economic growth kept annual import growth to less than 3 per cent in the six years to 1998 (Figure 5.3). Its main imports are cars, machinery and equipment, raw and processed food, textiles, medical goods and metals (Figure 5.6). Between 1993 and 1998, dairy products and eggs (up 25 per cent on average per year to US$229 million in 1998), meat (up 15 per cent to US$218 million) and sugar and honey (up 16 per cent to US$163 million) grew most rapidly (International Economic Data Bank, 2000).

Figure 5.7

UAE Imports Large and Diverse: Re-exports the Key

Top Ten UAE Imports, 1996-98



Source: International Economic Data Bank, 2000.

The UAE

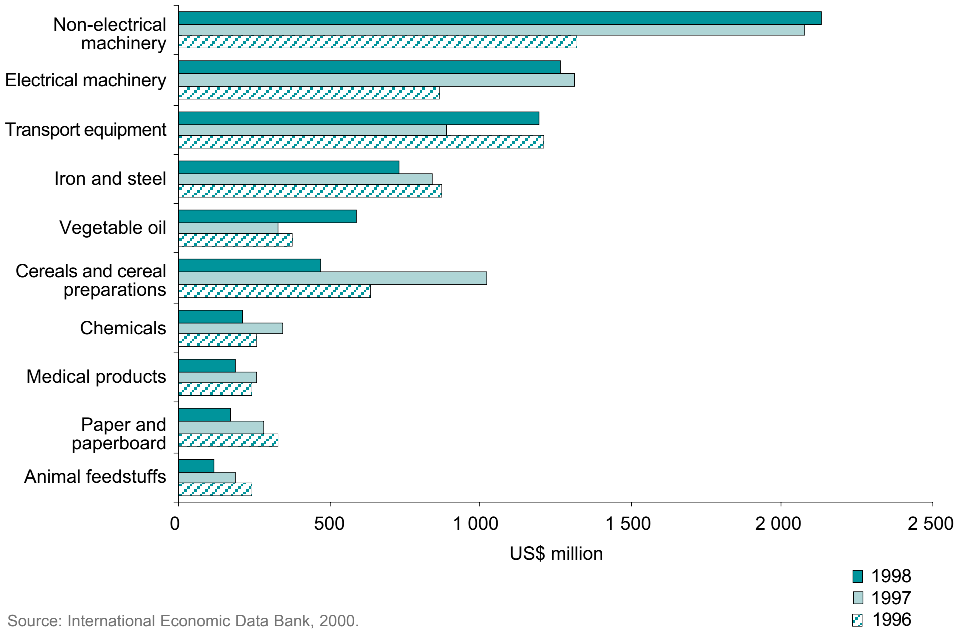
The UAE's very open trade regime and specialisation in re-exports produced a merchandise import demand of US$24.3 billion in 1998 or almost 70 per cent of GDP (Figure 5.1). The UAE's 7.2 per cent import growth reflected its expanding re-export trade and successful economic diversification. Manufactured goods, chiefly transport equipment, electrical and non-electrical machinery, textiles and clothing, metal manufactures, iron and steel dominate merchandise imports (Figure 5.7).

Rapidly growing imports between 1993 and 1998 include transport equipment (up 17 per cent on average per year to US$3.0 billion in 1998), machinery (up 16 per cent to US$7.3 billion), industrial measuring instruments and clocks (up 15 per cent to US$972 million), household chemicals and cleaning products (up 15 per cent to US$505 million), meat (up 10 per cent to US$218 million), dairy products and eggs (up 11 per cent to US$229 million), and medicinal products (up 13 per cent to US$221 million) (International Economic Data Bank, 2000).

Figure 5.8

Iran's Imports Are Minimal

Top Ten Iranian Imports, 1996-98



Source: International Economic Data Bank, 2000.

Iran

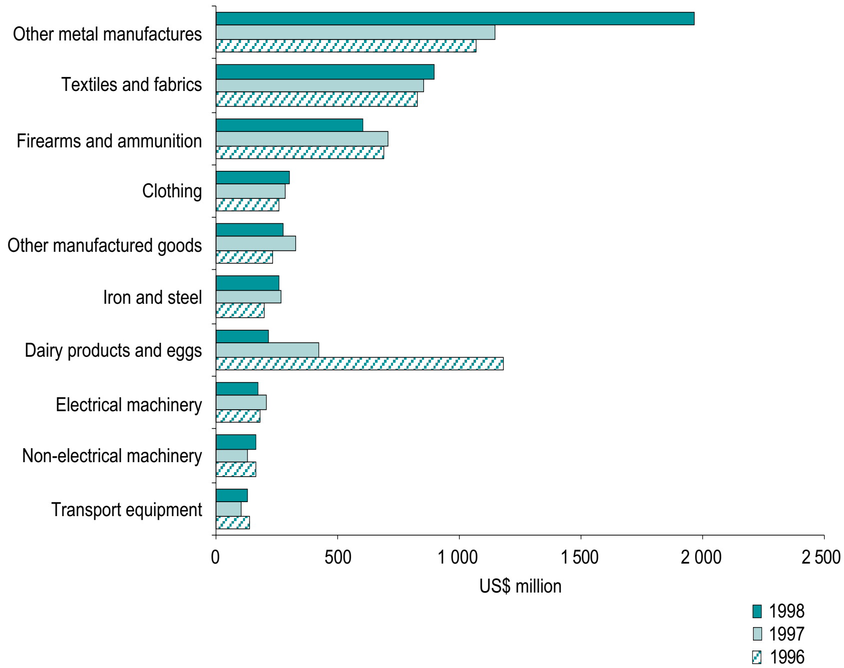
Due to the relatively large size of its economy by Gulf standards, its policy of compressing imports and strict import controls, Iran's imports as a share of GDP are relatively low (Figure 5.1). Its import profile is heavily skewed towards bulk foodstuffs and essential capital goods, reflecting recent hard currency shortages, import bans on many products and Iran's more diverse and heavily protected industrial base. While Iran officially imported goods worth US$10.1 billion in 1998 (International Economic Data Bank, 2000), given its large informal trade sector, and the confidential nature of bulk food imports, its actual imports are estimated to be around US$14 billion.

In official figures, manufactured imports are more prominent than food imports, with machinery and transport equipment especially significant (Figure 5.8). However, total food import requirements average US$3 billion to $5 billion per year, depending on seasonal conditions. Higher oil revenues in 2000-01 will ease pressure on Iran's debt obligations, and permit the first growth in consumer product imports since 1995.

Figure 5.9

Kuwaiti Imports Growing Slowly

Top Ten Kuwaiti Imports 1996-98



Source: International Economic Data Bank, 2000.

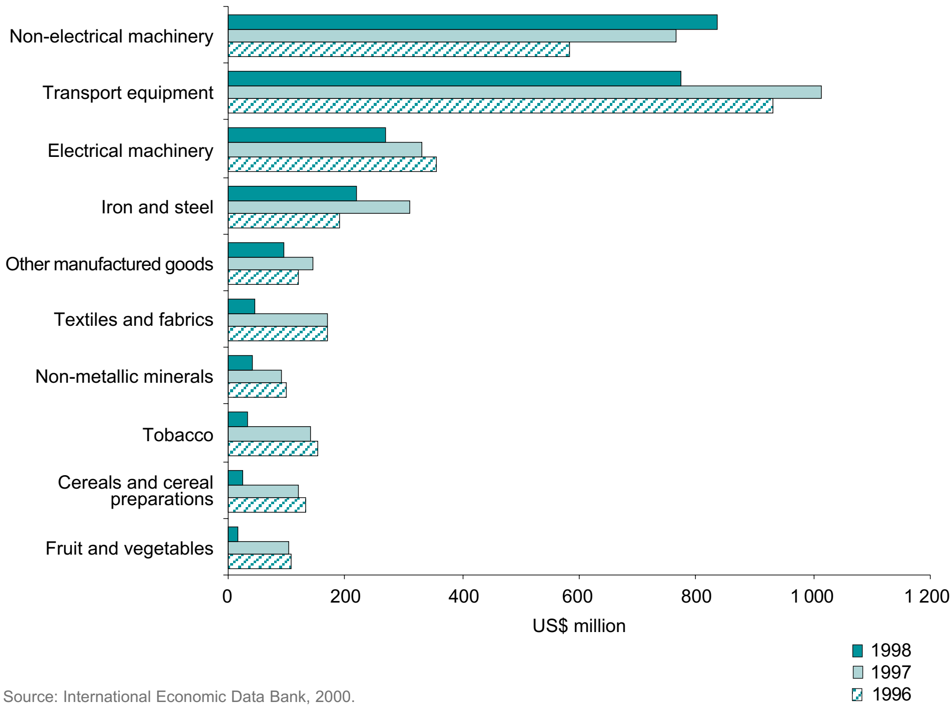
Kuwait

Reflecting the 106 per cent import surge in 1992, following the Gulf War, Kuwait's 1998 imports of US$7 billion remain slightly below 1993 imports. Major items included defence equipment, clothing and textiles, iron and steel, dairy products and eggs, electrical and non-electrical machinery and transport equipment (Figure 5.9). The most rapidly growing imports between 1996 and 1998 included explosives (up 107 per cent on average per year to US$22 million in 1998), crude fertilisers (up 83 per cent to US$23 million), transport equipment (up 35 per cent to US$196 million) and plumbing, heating and lighting equipment (up 23 per cent to US$44 million) (International Economic Data Bank, 2000).

Figure 5.10

Oman's Imports Growing Strongly

Top Ten Omani Imports, 1996-98



Source: International Economic Data Bank, 2000.

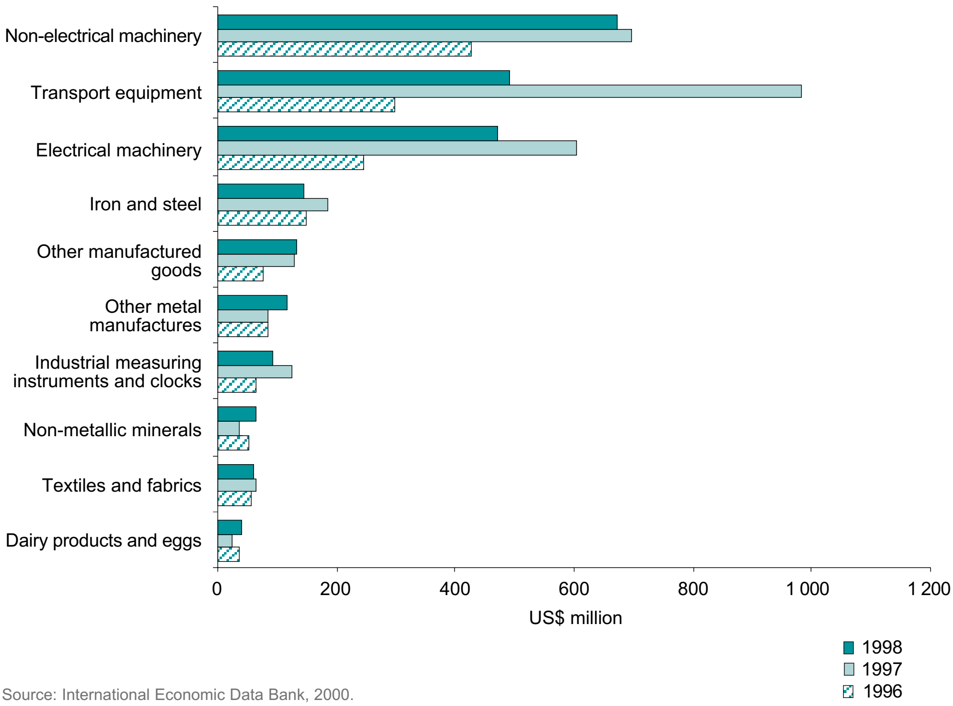
Oman

After Qatar and the UAE, Oman had the fastest import growth in the six years to 1998, averaging 6.6 per cent per year (Figure 5.3), reflecting relatively low tariff barriers and solid economic growth. Transport equipment and electrical and non-electrical machinery dominate imports (Figure 5.10); iron and steel, textiles and fabrics and food imports, principally fruit, vegetables and cereals, also are significant. The fastest growing imports include non-electrical machinery (up 12 per cent on average per year between 1993 and 1998 to US$1.1 billion in 1998), iron and steel (up 14 per cent to US$220 million), edible oils (up 30 per cent to US$34 million), and non-ferrous metals (up 18 per cent to US$28 million) (International Economic Data Bank, 2000).

Figure 5.11

Qatar Importing for LNG Expansion

Top Ten Qatar Imports, 1996-98



Source: International Economic Data Bank, 2000.

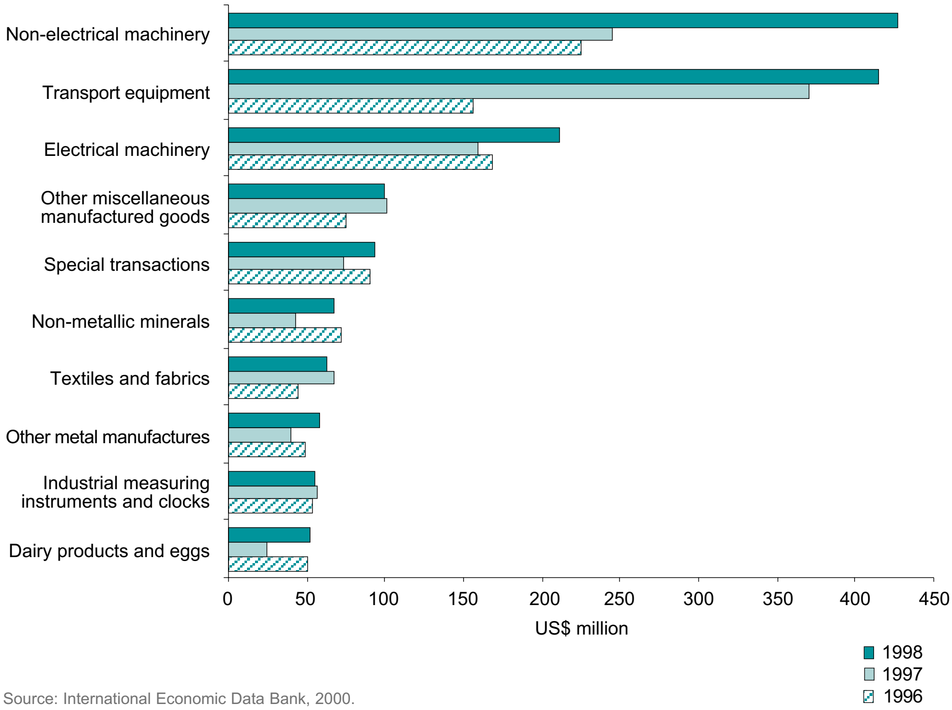
Qatar

Qatar experienced the most rapid import growth in the Gulf in the six years to 1998, almost 14 per cent per year, due to capital equipment imports associated with the development of its huge North Field gas reserves, and the expansion of its LNG export facilities. Imports reached US$2.9 billion in 1998, focused mainly on non-electrical and electrical machinery and transport equipment (Figure 5.11). Fast growing imports between 1993 and 1998 were non-electrical machinery (up 40 per cent on average per year to US$672 million in 1998), iron and steel (up 22 per cent to US$147 million), electrical machinery and metal manufactures (both up 13 per cent to US$473 million and US$116 million) (International Economic Data Bank, 2000).

Figure 5.12

Bahrain's ETM Imports Jump

Top Ten Bahraini Imports, 1996-98



Source: International Economic Data Bank, 2000.

Bahrain

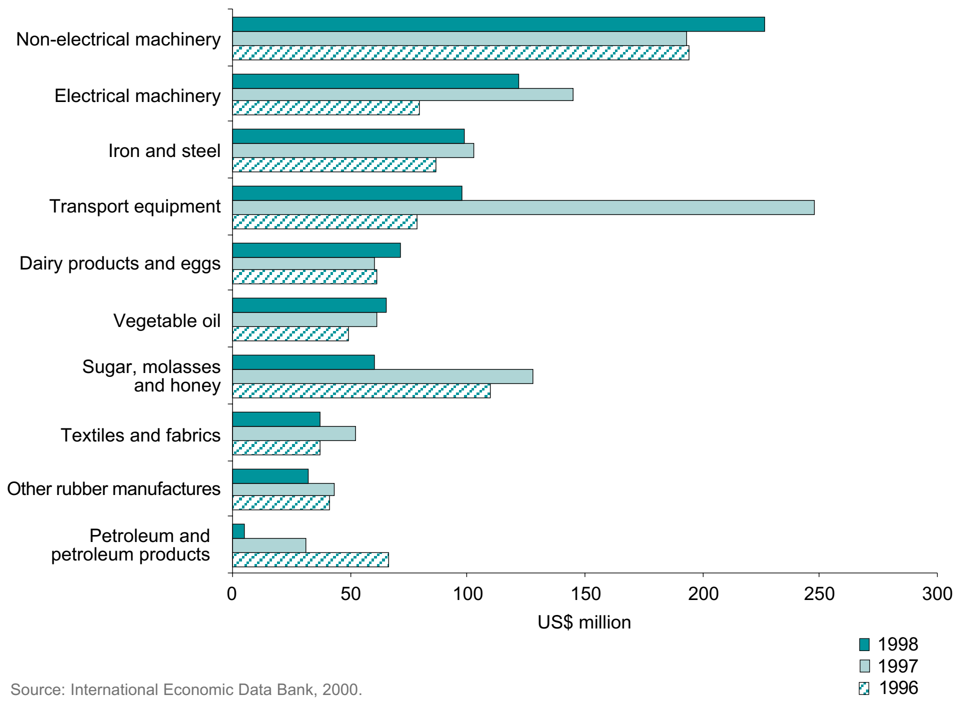
Between 1993 and 1998, Bahrain's imports grew very slowly, under 2 per cent per year, due to dwindling oil reserves, and slower growth associated with growing competition from Dubai in the services and banking field. Imports, mainly of electrical and non-electrical machinery and transport equipment, reached US$2.3 billion in 1998, associated with expansion of the aluminium and refining industries (Figure 5.12). Significant Bahraini imports, including alumina, are large in value but confidential in nature and are not represented in these statistics. (See Chapter 2 - *Australian Opportunities*.)

Fast growing imports in Bahrain between 1993 and 1998 included dairy products (up 13 per cent on average per year to US$53 million in 1998), non-electrical machinery (up 9.5 per cent to US$427 million), metalliferous ores (up 488 per cent to US$41 million), and plastics (up 16 per cent to US$20 million).

Figure 5.13

Development Challenge Drives Imports

Top Ten Yemeni Imports, 1996-98



Source: International Economic Data Bank, 2000.

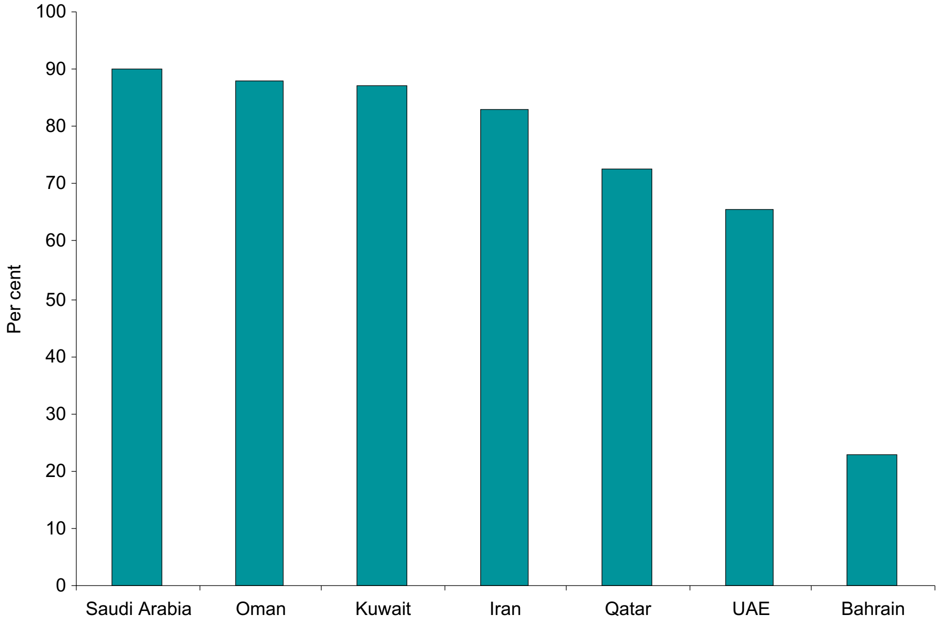
Yemen

Due to the disruption of civil war, between 1993 and 1998, Yemen's imports declined at an annual average rate of 4.5 per cent (Figure 5.3) to reach US$1.7 billion by 1998. Electrical and non-electrical machinery and iron and steel were the top three items (Figure 5.13). However, reflecting Yemen's relative poverty and harsh climate, food imports were 30 per cent of total imports or US$524 million. In the six years to 1998, Yemen's fastest growing imports included animal and vegetable oils (up 19 per cent on average per year to US$13 million in 1998), transport equipment (up 13 per cent to US$97 million), fruit and vegetables (up 11 per cent to US$38 million), and electrical machinery (up 9 per cent to US$121 million) (International Economic Data Bank, 2000).

Figure 5.14

Oil Dependence Varies Significantly

Share of Oil in Merchandise Export Revenue, 1996-98, Per cent



Source: International Economic Data Bank, 2000; and Business Monitor International, 2000a.

EXPORTS

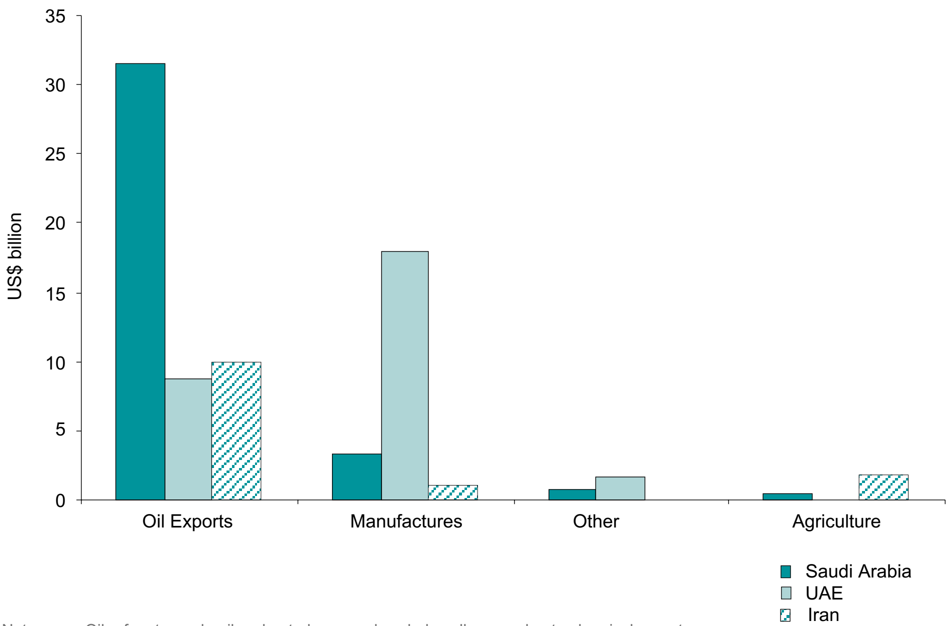
While oil is the region's dominant export, oil dependence is highest in Kuwait, Saudi Arabia and Iran (Figures 5.14 and 5.15).[4] Lower Bahraini oil export dependence reflects relatively modest oil production and significant aluminum and petrochemical exports while for the UAE, lower oil dependence is primarily caused by high re-exports. Since the end of the civil war, Yemen has increased its oil exports rapidly from a low base; this is the main reason for its extraordinary export growth (Figure 5.3).

[4] Oil here refers to crude oil and petroleum products, and does not include gas or petrochemical exports.

Figure 5.15

The UAE Has Large Manufacturing Re-exports

Value of Major Export Categories in Saudi Arabia, the UAE and Iran, 1998



Note: a Oil refers to crude oil and petroleum, and excludes all gas and petrochemical exports.

b The UAE's re-exports of around US$10.6 billion in 1998 are included in manufactures.

c Agricultural exports for the UAE are nearly zero.

Source: Datastream, 2000; Economist Intelligence Unit, 1999a and 1999b; and additional estimates are by Key Economics, 1999.

Export Prospects

As Iran, Qatar, the UAE, Saudi Arabia and Kuwait account for 30 per cent of world natural gas reserves, in future, natural gas exports are likely to grow rapidly. LNG schemes already are developed in Qatar, Oman and the UAE, and Iran, Saudi Arabia and Kuwait are developing their reserves (US Department of Energy, 1998).[5] Qatar's gas export growth will be the most dramatic with contracted LNG sales expected to rise from 5.7 million tonnes in 1999 to 18.3 million tonnes in 2003 (Fawzi Al-Khatib and Tarik Al-Malki, 2000).

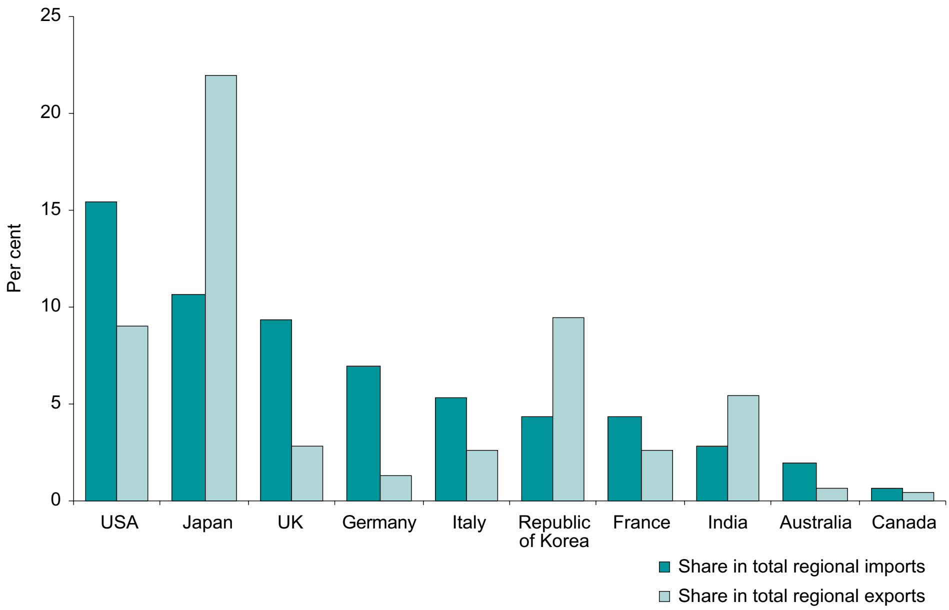
Petrochemical exports also should expand rapidly as new projects come onstream in Saudi Arabia, the UAE and Bahrain. (See Chapter 4 - *Foreign Investment*.) Petrochemical exports should expand particularly strongly if oil prices stay high, as higher oil prices generate higher world petrochemical prices. This boosts profits for Gulf petrochemical producers who can access lower cost domestic feedstock. Aluminium exports also are set to expand if major gas pipeline projects like Dolphin, and Saudi, UAE and Bahraini smelter expansion plans proceed.

5 Asia is a major target market for these exports because of strong expected growth in demand.

Figure 5.16

United States and Japan the Gulf's Main Trading Partners

Country Shares of Gulf Economies' Exports and Imports, Per cent, 1998



Note: The Gulf economies are Iran, Saudi Arabia, the UAE, Oman, Bahrain, Qatar, Kuwait and Yemen. These statistics refer to goods trade only.

Source: International Monetary Fund, 1999.

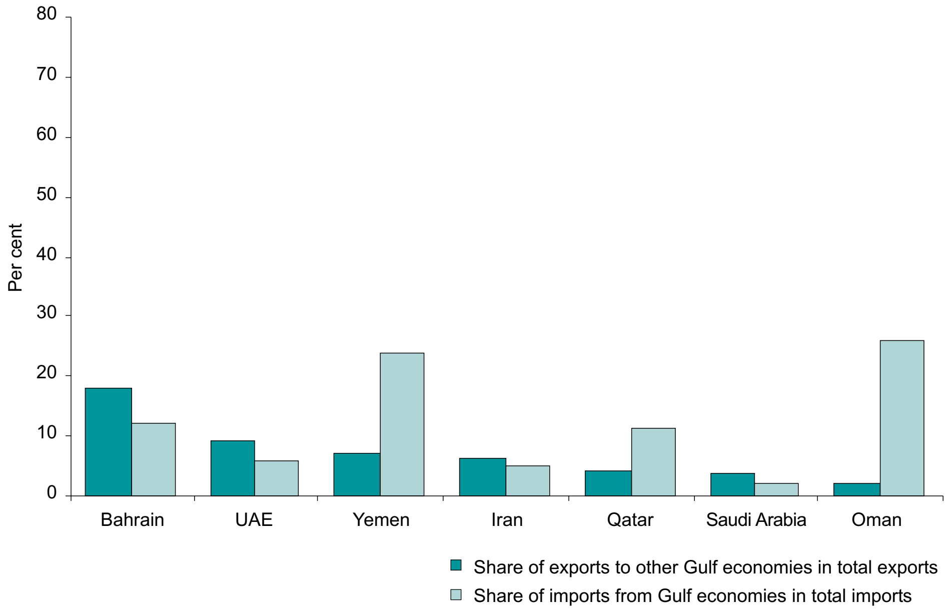
MAIN TRADING PARTNERS

The Gulf economies' trading partners are diverse but Japan and the United States supply a large share of Gulf economy imports, and are their biggest export destinations (Figure 5.16 and Appendix Table 5.1). The United States is a particularly prominent trading partner for Saudi Arabia, but absent from Iran's reported trade statistics, due to US sanctions. EU nations also are important import suppliers, while the Republic of Korea is a major export destination, reflecting its strong industrial base and high dependence on energy imports. Australia receives only 0.7 per cent of regional exports, but supplies 2 per cent of regional imports, well above its 1 per cent share of world trade (International Monetary Fund, 1999).

Figure 5.17

Intra-regional Trade Is Low

Share of Exports and Imports from the Gulf Economies, 1998



Source: International Monetary Fund, 1999; and Department of Foreign Affairs and Trade, 2000a.

INTRA-REGIONAL TRADE

Intra-regional merchandise trade is limited except for crude oil, gas, oil and gas products and re-exports (Figure 5.17).[6] Most Gulf economies produce and export similar products and lack diversified manufacturing bases to stimulate intra-industry trade. Intra-regional trade is more important among the smaller economies, with Oman receiving 36 per cent and Yemen receiving 24 per cent of their imports, mostly re-exports and oil products, from regional neighbours.[7] In contrast, Saudi Arabia, the UAE and Iran each import as much, or more, from the Republic of Korea than from other regional economies combined (International Monetary Fund, 1999).

Bahrain and the UAE depend most on exports to other Gulf economies, particularly Bahrain's financial services and tourism exports to Saudi Arabia, and the UAE's transport and tourism exports and re-exports throughout the Gulf.[8]

6 Intra-regional trade is defined as trade between the economies detailed in this report.

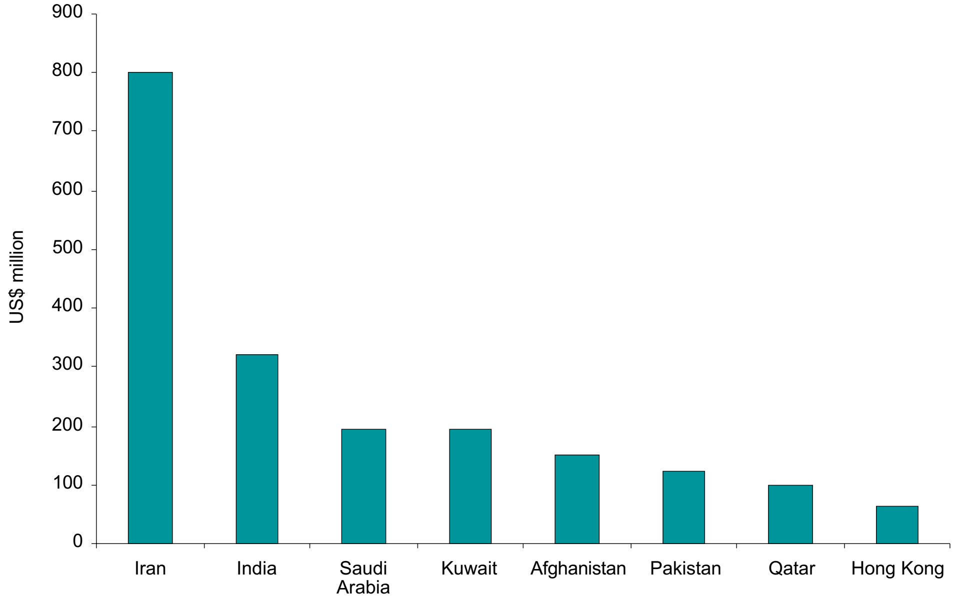
7 In addition, Bahrain receives significant Saudi crude oil imports for refining and re-export, and Dubai imports gas from Oman for power generation.

8 In 1998, 9.4 per cent of Bahrain's exports went to Saudi Arabia, a further 4.4 per cent to the UAE and in total 19.7 per cent of exports went to the region. Gulf economies took 9.7 per cent of the UAE's exports.

Figure 5.18

Iran and India Major Re-export Markets

Dubai Re-exports by Destination, 1997



Note: Data are January to November only.

Source: Economist Intelligence Unit, 1999d.

REGIONAL RE-EXPORT CENTRES

The UAE is the dominant Gulf entrepot; its re-exports are about four times higher than other non-oil exports, and doubled to US$11 billion between 1990 and 1998. In 1998, about 40 per cent of UAE imports were re-exported (Central Bank of the United Arab Emirates, 1999).[9] Re-exports also are important in Oman, with its 1998 re-exports more than double all other non-oil exports. However, with re-exports of around US$1.3 billion in 1998, Oman is not yet a serious competitor to the UAE (Economist Intelligence Unit, 1999c).

Dubai is the main re-export centre in the UAE, with its twin ports of Jebel Ali and Port Rashid handling 40 per cent of all Gulf containers. As well, dhows loaded in Dubai carry large volumes of unrecorded trade to Gulf economies (*Middle East Economic Digest*, 31 March 2000, p. 2).[10]

Dubai's re-export markets are diverse, with the main destinations Iran and the Indian sub-continent (Figure 5.18). Between 1993 and 1997, recorded re-exports to Iran fell by US$95 million, mainly due

9 For agricultural imports, the percentage of re-exports is even higher at around 60 to 70 per cent (Canadian Business Development International, 1997).

10 The trade volumes handled through Jebel Ali and Port Rashid in 1998 were almost three times the amount landed at Saudi Arabia's Jeddah Islamic Port, the largest port on the Red Sea.

to Iran's foreign exchange shortages. However, this decline was more than offset by growth in re-exports to India, up from US$98 million in 1993 to US$320 million in 1997, as Indian economic growth improved (Economist Intelligence Unit, 1999d).

Dubai's Prospects

Competition for Dubai's re-export business is increasing, mainly from Oman and Yemen. Oman is looking to the new port of Salalah, managed by Maersk Sealand to increase its re-exports further. By mid 2000, Maersk Sealand had diverted around 30 per cent of its transhipments from Dubai to Salalah, with much of Salalah's other throughput coming from less efficient ports outside the Gulf, such as Colombo (*Middle East Economic Digest*, 31 March 2000, p. 2). Nonetheless, in 1999, Dubai ports' throughput increased by 1.4 per cent, down on the 7.7 per cent increase of 1998, but impressive given reduced Maersk Sealand business.

Yemen plans to expand throughput in Aden by using its strategic location at the entrance to the Red Sea leading to the Suez Canal. Its prospects are boosted by the 60 per cent equity share taken by the Port of Singapore Authority (*Gulf Business*, 2000).

One major factor underpinning the continued attractiveness of Dubai and other UAE ports as re-export centres is the UAE's considerable internal market. The UAE's GDP of US$49 billion and per capita GDP of US$15 100 compares favourably with Oman's US$14 billion GDP and US$6 120 per capita income and Yemen's US$5.6 billion GDP and tiny US$340 per capita income.[11] Domestic market size matters, as ports with larger domestic markets offer more back loading potential and lower average transport costs for primary cargoes.

Dubai's record of efficient operations also will underpin its continued central role as a trade hub. Reflecting their high efficiency, Dubai's ports have the highest crane utilisation rates in the region (*Middle East Economic Digest*, 31 March 2000, p. 2).

EFFECTS OF WTO MEMBERSHIP ON REFORM

WTO membership and associated trade liberalisation is critical for the region's future economic prospects, lifting economic growth and boosting foreign investor confidence (Borland, 2000). Bahrain, Kuwait, Qatar and the UAE are all WTO members.[12] Oman, Saudi Arabia and Yemen are applying for membership and negotiating entry conditions, although Yemen's accession is in its infancy. Iran's application for WTO membership has not been scheduled for consideration due to US opposition.

[11] Other significant ports in the UAE include Khor Fakkan and Mina Khalid in Sharjah, Fujairah port in Fujairah and Mina Zayed in Abu Dhabi.

[12] Bahrain, Kuwait , Qatar and the UAE proceeded from GATT membership to WTO membership.

Impact of WTO on Existing Members

WTO membership is an important driver of reform, limiting the forms of protection economies can apply and generating commitments to future liberalisation. For example, trade liberalisation, particularly in agriculture and services, elimination of subsidies, protection of intellectual property and equal treatment of domestic and foreign companies are all requirements of WTO membership. Members also must remove non-tariff barriers, such as standards, certification, licensing, inspection and quarantine regimes not in accordance with WTO rules.

One area of major progress is intellectual property protection. For example, before joining the WTO in 1995, the UAE expanded copyright protection to cover audio and video tapes and computer software, and introduced legislation governing registration of patents and trademarks (British Bank of the Middle East, 1998). As UAE legislation and enforcement improved, the United States Trade Representative's Office removed the UAE from its watch list on intellectual property protection in the pharmaceutical and computer software industries (Business Monitor International, 2000b).

Kuwait and Qatar also are improving intellectual property protection. In May 1997, Qatar introduced an intellectual property law, and should introduce new trademark and intellectual property laws consistent with World Intellectual Property Standards by the end of 2000 (Hong Kong and Shanghai Banking Corporation, 2000). Similarly, in 1999 Kuwait passed new copyright and patent protection laws and regulations to enforce these laws (US Department of State, 1999a).

WTO requirements also are opening important new sectors to foreign competition in several Gulf economies. For example, the UAE telecommunications monopoly, Etisalat, will face competition from foreign telecommunications companies by 2004. WTO rules also caused Bahrain to eliminate exclusive agencies and introduce fixed term agency agreements.

Oman's WTO Accession

Oman's WTO admission is imminent. The accession process has driven major reform, with important benefits for Australia. Oman has agreed to liberalise tariffs and bind tariff commitments for agricultural exports, as well as minerals, cars, information technology products, chemicals and pharmaceuticals, paper products and construction materials. It also is adopting WTO rules on standards and quarantine regimes, and reforming customs valuation procedures.

Oman also has agreed to ensure no taxation discrimination between domestic and foreign companies, and increased foreign ownership limits from 49 to 70 per cent. It is opening new sectors to competition, introducing then shortening timeframes for foreign participation in the telecommunications sector, with foreign participation to start from 2002.[13] It also is opening up its electricity sector to foreign participation after introducing a world's best practice competitive market environment, similar to that in Victoria, Australia.

[13] Foreign participation in the telecommunications sector will be liberalised progressively, starting in 2002 with payphones and calling cards, and moving into mobile phones, telex services, audiovisual services and data transmission.

Saudi Arabian WTO Accession

Saudi WTO accession will have important domestic and regional implications, given the Saudi economy's size. Saudi Arabia's unilateral foreign investment liberalisation announcement in April 2000 and its improved tax treatment for foreign companies already has placed GCC neighbours like the UAE under pressure to improve their treatment of foreign investors.

Multilateral and bilateral negotiations to complete Saudi Arabia's accession process still are underway. Bilaterally agreed market access improvements, which will apply to all WTO members, will yield significant benefits should Saudi Arabia's WTO accession proceed. Multilateral negotiations also could yield major improvements in access to the Saudi market via reduced agricultural subsidies, fewer quantitative restrictions, improved intellectual property protection, equal tax treatment for domestic and foreign companies, and improved customs procedures.

Australia has completed its bilateral accession negotiations with Saudi Arabia, securing access for previously banned packaged milk, substantially reduced tariffs for wheat and wheat flour, and reduced tariffs and increased access security for car and car component exports (Vaile, 2000). However, the United States, European Union and Canada are yet to finalise their bilateral negotiations.

TARIFF BARRIERS

Tariff barriers vary across the Gulf economies; Kuwait and the UAE have the lowest average tariffs at around 3.5 per cent, and Saudi Arabia has the highest. Kuwait's agricultural imports incur tariffs of 0 to 4 per cent, while all industrial imports incur 4 per cent tariffs; tobacco product imports incur 70 per cent tariffs (Department of Foreign Affairs and Trade, 2000b).[14] In the UAE, most tariffs are 4 per cent, although around 75 per cent of imports enter duty free (US Department of State, 1999b). The main duty free imports are:

- imports entering the free trade zones
- tariff free items including foodstuffs, medicines and public sector imports
- imports from GCC economies, which largely enter the UAE and other GCC economies duty free, if the GCC adds at least 40 per cent of their value and GCC nationals own at least 51 per cent of the producing firm.

Saudi Arabia's simple average tariff rate is 12.5 per cent (Department of Foreign Affairs and Trade, 2000b). Imports of basic foodstuffs and medicine are duty free, with a general 12 per cent tariff on most other imports, and a 20 per cent tariff on many imports which also are produced locally (Saudi British Bank, 1999).

Among the other economies, tariff data are less comprehensive. However, the key points are:

- **Qatar**: the general tariff rate is 4 per cent but tariffs of 20 to 30 per cent apply to goods competing with local products such as cement, steel and urea (Hong Kong Shanghai Banking Corporation, 2000)

[14] Prohibited imports include alcohol, wheat flour, asbestos, fireworks and drinking water coolers.

- **Bahrain:** imports of raw materials, semi-manufactured goods and products for development projects or re-export are duty free (Canadian Business Development International, 1997). Tariffs start at 5 per cent on foodstuffs and necessities, and as in many other regional economies, much higher rates apply to cigarettes (50 per cent) and alcohol (125 per cent)
- **Oman:** a wide range of essential consumer goods enter duty free, as do industrial inputs.[15] 'Luxury' consumer goods, including tea, coffee and prepared foods, attract 15 per cent tariffs, while cars incur 10 to 15 per cent tariffs depending on engine size (US Department of State, 1999c). Oman's WTO entry will drive further tariff and non-tariff barrier reductions. For example, following criticism of its 10 per cent price preference for Omani companies in government procurement tenders, Oman has agreed to initiate negotiations to join the WTO Agreement on Government Procurement upon accession (United States Trade Representative, 2000)
- **Iran:** most consumer good imports incur 30 to 50 per cent tariffs. Capital and intermediate goods attract lower tariffs, while medicines, wheat and other strategic goods are duty free (Mohammed Reza Raf'ati, 1995). Regular checks for specific information are critical, as particulars of import regulations change often.[16] Non-essential imports often are banned, due to currency restrictions
- **Yemen:** since 1996, as part of the IMF sponsored reform program, tariffs have fallen to between 5 and 25 per cent.

Tariff Unification within the GCC

In November 1999, GCC economies decided to move external tariffs to a common range between 5.5 and 7.5 per cent by 2005. The impact of this agreement depends on exemptions and phase-in times which are yet to be released publicly. However, one factor pushing for effective implementation is that the GCC free trade agreement with the European Union depends on implementing the common tariff by 2005. Full implementation of the agreement would see Saudi tariffs fall, resulting in significantly improved access to the region's main market. On the other hand, the UAE and Kuwait would have to raise tariffs, which they are wary of doing.

Moving to a common external tariff will transform the GCC from a regional trading arrangement to a customs union.[17] As such, it is likely to be subject to greater WTO scrutiny, and in common with other customs unions, will be ineligible for developing countries status (Ravier, 2000).

---

[15] Essential products include rice and meat, seeds, fertilisers, live plants, agricultural implements and books. In May 1999, around 40 industrial items became tariff free (US Department of State, 1999c).

[16] Iran's trade regime is highly opaque due to overlapping ministerial responsibilities for trade, and ad-hoc administrative decision making. Some imports like meat are banned in some years, when a domestic surplus is envisaged, but permitted in others, when a shortfall is predicted.

[17] By definition, a customs union involves a grouping with common external tariffs while a regional trading arrangement has internal tariff concessions for members but no common external tariff.

NON-TARIFF BARRIERS

Extensive non-tariff barriers are a defining feature of the regional trading environment. Common barriers include:

- exclusive agency requirements
- government procurement policies favouring nationals
- significant numbers of prohibited imports
- restrictive labelling requirements.

Agency Requirements

Use of a local distribution agent is a key legal requirement for exporting to Oman, Qatar, Kuwait and Bahrain, and generally, these agents must be nationals or companies owned by nationals (Table 5.1). In Saudi Arabia and the UAE, agents are not compulsory but they must be locals or GCC nationals. They are very commonly used because of difficulties in accessing local markets without them. Restricting agency business to local citizens, and granting exclusive agency rights to import specific products is likely to increase the cost of imported products and reduce import volumes. Because of their important role and the difficulty of ending agency agreements, choosing the right agent is critical for exporters to the Gulf. (See Chapter 3 - *Business Environment*.)

Government Procurement Policies

Given the state's dominant role in economic activity in the Gulf, government procurement policies are a critical market access issue, particularly for oil and infrastructure projects. Qatar has the most open government procurement system; invitations to pre-qualify for bids are advertised in local and international media and via Qatari embassies, and local agents are not required until contract signing. In contrast, in other markets, requirements for local ownership or price preference for local products are common (Table 5.2).

An additional procurement requirement applying to major government purchases, particularly of military equipment, in Kuwait, Saudi Arabia and the UAE is 'offset' programs; these require reinvestment of a portion of the contract value in indigenous industries. (See Chapter - 4 Foreign *Investment*.)

Prohibitions on Items

Trade prohibitions also influence regional trade patterns. The UAE has the most liberal regulations with few bans on imported products, except those from Israel. Other Gulf economies often ban imports of religiously or politically sensitive items. For example, Saudi Arabia and Iran ban imports of pork, alcohol, statues representing the human form, games of chance and materials offensive to Islamic morals. Qatar and Yemen also prohibit pork imports while other economies tightly regulate them.

In addition, except for Oman and Qatar, imports from Israel are prohibited, while US trade sanctions prohibit US firms trading with Iran. (See Chapter 4 - *Foreign Investment* for more detail on the US sanctions.)

Table 5.1

Local Agents Often Essential

Local Agency Distribution Requirements for Imports

Economy	Import distribution requirements
UAE	Commercial agents must be UAE nationals or companies wholly owned by UAE nationals, but use of agents is not legally required. An agent may be appointed either for the whole UAE, or for one or more emirates. The agency must provide an exclusive service for the product or territory concerned.
Saudi Arabia	Agents are compulsory only for securing government contracts, although, to enhance its WTO accession bid, the Government recently removed this requirement for the new gas and downstream project bidding. Agents commonly are used for exporting. Foreign companies are not restricted to one agent. However, only Saudi or GCC nationals can have commercial agencies.
Iran	In principle, local distributors or agents are not required. The main constraints are the outright ban on private sector imports in many sectors, and associated Central Bank allocations of scarce foreign exchange primarily to ministries and government bodies.
Oman	A local agent with an official import licence must handle imports but arrangements no longer need to be exclusive. Agents must be Omanis or Omani majority owned companies.
Qatar	Only licensed importers who are either Qatari citizens or Qatari companies can import goods into Qatar.
Bahrain	Except for manufacturers or designated regional headquarters, a Bahraini agent or a joint stock company with at least 51 per cent Bahraini ownership must manage commercial sales. Since amendments to meet WTO obligations in 1998, the Government has abolished exclusive agencies and fixed term agreements, and permitted the principal to terminate unproductive agency agreements.
Kuwait	In principle, a Kuwaiti agent is required, although in practice this sometimes is avoided illegally.
Yemen	The Government eliminated import licensing and agency requirements in 1996.

Source: US Department of State, 1999a, 1999c, 1999d, 1999e, 1999f and 1999g; Hong Kong and Shanghai Banking Corporation, 2000; and Saudi British Bank, 1999.

Table 5.2

Qatar Has Most Open Procurement

Key Government Procurement Requirements

Economy	Government procurement requirements
UAE	For most civilian purchases, government entities deal only with UAE registered firms and procure locally, unless quality is unacceptable. Bids commonly do not go to public tender, but go to pre-qualified firms. Offset arrangements apply for defence expenditure.
Saudi Arabia	Eligibility for government contracts does not require majority local ownership, although price preferences for national and GCC products in government procurement mean foreign contractors often are disadvantaged commercially. Offset arrangements apply for defence expenditure.
Iran	Locally produced and/or assembled products always are preferred. Foreign machinery suppliers often must establish offices and service centres in Tehran, staffed mainly by locals.
Oman	Omani bids receive 10 per cent price preference and in some cases, tenders are announced only to pre-selected firms. This 10 per cent price preference is likely to be a key issue in negotiations to join the WTO Agreement on Government Procurement upon Oman's WTO accession. Agents are useful but not required for selling to the Omani Government.
Qatar	Invitations to pre-qualify for bidding are advertised widely. Foreign companies do not need a local agent to participate in the bid process but need one by the time of signing.
Bahrain	For major projects, the relevant ministry extends invitations to selected pre-qualified firms. To be eligible for government tenders, companies must be 51 per cent Bahraini owned. While not always enforced, the Government gives up to a 10 per cent price preference for Bahraini and GCC products. A local, well connected representative is critical to bidding success.
Kuwait	All government procurement must be conducted with Kuwaiti citizens or firms, making joint ventures the best market access method. Kuwaiti government procurement policies specify local products when available, and prescribe a 10 per cent price advantage for local firms. All government contracts above US$3.3 million include offset clauses.

Source: US Department of State, 1999a, 1999c, 1999d, 1999e, 1999f and 1999g; United States Trade Representative, 2000; Hong Kong and Shanghai Banking Corporation, 2000; and Saudi British Bank, 1999.

Labelling and Product Standards

Most regional economies have detailed labelling requirements, including Arabic and Farsi labels. (See Chapter 3 - *Business Environment*.) In Saudi Arabia, the UAE and Qatar, shelf life requirements often are far shorter than scientifically necessary to preserve freshness (US Department of State, 1999e). These requirements inevitably discriminate against non-GCC importers, given their greater distance from the market.

FUTURE TRADE PROSPECTS

Trade prospects are good in the short and medium term. In 2000 and 2001, high oil prices are likely to drive rapid import growth in Gulf economies, though beyond 2001 this factor may not sustain continued growth. In the medium term, the WTO is becoming an increasingly important force for liberalisation in the region, reducing tariff and non-tariff barriers, improving intellectual property protection, liberalising agency arrangements and opening rapidly growing sectors such as telecommunications. Its influence is likely to increase if Saudi Arabia's accession is successful. Common GCC external tariffs may raise average tariffs in some of the regions' most open economies, like the UAE and Kuwait; however, increased integration also should promote intra-regional trade and hence manufacturers' ability to supply the Gulf region from one manufacturing base. Major gas projects like Dolphin will increase Gulf economies' demand for industrial inputs. Other diversification policies, like encouraging service sector development also should increase significantly exports and import demand.

In the medium term, Iran may become a substantially more important trading nation. It has rapid population growth and shows signs of nascent economic reform. Moreover, it is possible that US sanctions may not be renewed in September 2001.

Appendix Table 5.1

Trade Directions Diverse

Export/Import Shares of Major Trading Partners, Per cent

Economy	Saudi Arabia	UAE	Iran	Kuwait	Bahrain	Oman	Qatar	Yemen
Other regional	3.6/2.3	9.1/5.8	6.4/5.1	0.7/0.9	18.1/12.2	1.9/25.8	4.3/11.1	7.1/23.9
United States	15.7/27.3	2.6/7.9	0.0/0.0	16.9/21.7	4.9/9.4	4.7/6.5	4.4/10.2	2.7/5.8
Japan	15.7/10.3	30.1/9.6	17.3/7.3	30/17.5	7.2/10.4	22.8/17	51.6/15.6	3.7/3.5
United Kingdom	3.2/11.5	3.3/8.7	0.4/4.7	3.5/8.2	3.3/6.8	3.1/10.2	0.9/1.4	0.3/5.0
Germany	1.3/6.2	0.7/6.4	3.5/11.6	0.9/8.2	1.3/5.2	0.2/5.5	0.1/6.4	2.1/3.6
France	3.9/3.7	0.4/4.1	5.1/5.3	1.6/4.2	2.4/3.2	0.2/4.4	0.1/11.1	1.5/5.6
Netherlands	3.7/1.6	0.3/1.9	3.3/2.2	6.3/1.5	0.5/1.4	0.1/2.4	0.02/2.4	0.8/2.2
Italy	3.0/4.3	0.4/5.4	9.1/7.6	0.3/6.1	1.5/5.2	0.06/6.7	0.1/4.6	0.8/4.3
Republic of Korea	9.6/3.4	7.7/5	7/6.4	15.2/7.7	7.9/2.7	15.7/1.5	9.8/2.2	11.4/1.9
India	5.6/1.8	6.5/5.4	4.1/1.8	3.7/0.4	17.9/2.9	0.7/2.4	1.4/1.2	0.3/2.3
Singapore	7.2/1.0	3.8/3.4	3.5/0.8	7.9/0.9	3.6/0.4	2.7/1.3	8.8/1.2	5.9/3.2

Source: International Monetary Fund, 1999.

REFERENCES

Borland, B., 2000, 'Gulf 2000: The WTO and GCC', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

British Bank of the Middle East, 1998, *United Arab Emirates*, British Bank of the Middle East, Business Profile Series, eighth edition, Hong Kong and Shanghai Banking Corporation, Hong Kong.

Business Monitor International, 2000a, 'Macroeconomic Data and Forecasts' (various countries), *Middle East Monitor - The Gulf*, May.

___ 2000b, 'Abu Dhabi's Power Play', *Middle East Monitor - The Gulf*, June pp. 5-7.

Canadian Business Development International, 1997, *The Agriculture and Agri-Food Exporter's Guide to Opportunities in the Middle East: Saudi Arabia, Agriculture and Agri-Food*, Canada, at atn-riae.agr.ca/public/htmldocs/e1557.htm, accessed on 22 February 2000.

Central Bank of the United Arab Emirates, 1999, *Statistical Bulletin*, July-September, Vol. 19, No. 3, p. 49.

Datastream, 2000, *Datastream Database*, www.primark.com, accessed from 7 to 11 August 2000.

Department of Foreign Affairs and Trade, 2000a, 'The APEC Region Trade and Investment', Department of Foreign Affairs and Trade, Canberra.

___ 2000b, 'Trade Negotiations Analysis System', Trade Negotiations Division, Department of Foreign Affairs and Trade, Canberra.

Economist Intelligence Unit, 1999a, *Saudi Arabia 1999-2000 Country Profile*, EIU, London.

___ 1999b, *Iran 1999-2000 Country Profile*, EIU, London.

___ 1999c, *Oman 1999-2000 Country Profile*, EIU, London.

___ 1999d, *United Arab Emirates 1999-2000 Country Profile*, EIU, London.

Fawzi Al-Khatib and Tarik Al-Malki, 2000, 'Clarifying the Region's Strategy for Economic and Structural Reform', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Gulf Business, 2000, 'Storming Ports', Vol. 4, No. 12, April, www.gulfbusiness.com/cgi-local/index, accessed on 27 June 2000.

Gulf Cooperation Council, 1999, *Economic Bulletin*, Vol. 14, Riyadh.

Hong Kong Shanghai Banking Corporation, 2000, 'Qatar', Hong Kong Shanghai Bank, Business Profile Series, tenth edition, Hong Kong and Shanghai Banking Corporation, Hong Kong.

International Economic Data Bank, 2000, International Economic Data Bank, Australian National University, Canberra.

International Monetary Fund, 1999, *Directions of Trade Statistics Yearbook,* IMF, Washington DC.

Key Economics, 1999, Consultancy report to the East Asia Analytical Unit, November.

Mohammed Reza Raf'ati, 1995, 'Iran's Standing in Global Trade and Upshots of Membering the GATT', *Payame Darya (Economic-Scientific Monthly),* Vol. 4, No. 33, pp. 14-25, at new.netiran.com/Frame-Html/Clippings/deconomy-index.html>, accessed December 1999.

Ravier, P. H., 2000, 'Examining the Implications of the WTO for the GCC', paper presented at the Gulf 2000: Energy, Infrastructure and Finance Conference, Abu Dhabi, 28 and 29 March.

Saudi British Bank, 1999, 'Saudi Arabia', Hong Kong Shanghai Bank Business Profile Series, eighth edition, Hong Kong and Shanghai Banking Corporation, Hong Kong.

US Department of Energy, 1998, *International Energy Outlook (Gas)*, Energy Information Administration Report, DOE/EIA-0484(98), www.eia.doe.gov/oiaf/ieo98, accessed on 8 December 1999.

US Department of State, 1999a, 'FY 2000 Country Commercial Guide: Kuwait', prepared by US Embassy Kuwait, released by Bureau of Economic and Business Affairs, US Department of State, at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

___ 1999b, *United Arab Emirates: 1998 Country Report On Economic Policies and Trade Practices*, submitted to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, Washington DC.

___ 1999c, 'FY 2000 Country Commercial Guide: Oman', prepared by US Embassy Muscat, released by Bureau of Economic and Business Affairs, US Department of State, at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

___ 1999d, 'FY 2000 Country Commercial Guide: Saudi Arabia', prepared by US Embassy Riyadh, released by Bureau of Economic and Business Affairs, US Department of State, at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

___ 1999e, 'FY 2000 Country Commercial Guide: Qatar', prepared by US Embassy Doha, released by Bureau of Economic and Business Affairs, US Department of State, at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

___ 1999f, 'FY 2000 Country Commercial Guide: Bahrain', prepared by US Embassy Manama, released by Bureau of Economic and Business Affairs, US Department of State, at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

___ 1999g, 'FY 2000 Country Commercial Guide: United Arab Emirates', prepared by US Embassy Abu Dhabi, released by Bureau of Economic and Business Affairs, US Department of State, at www.state.gov/www/about_state/business/com_guides/index.html, accessed on 21 June 2000.

United States Trade Representative, 2000, '2000 National Trade Estimate Report on Foreign Trade Barriers', at www.ustr.gov/reports/nte/2000/contents.html, accessed on 28 July 2000.

Vaile, M., 2000, Press release by the Minister for Trade, 'Australia Concludes WTO Deal with Saudi Arabia', 31 March.

IMPLICATIONS

THE GULF'S ECONOMIC PROSPECTS

Slower and more volatile growth in the 1990s, growing demographic pressures and the evident success of more open, globalised economies have convinced many Gulf governments to diversify their economies and open them further to foreign trade and investment. As a result, trade and investment policies are becoming more liberal, and many governments are encouraging foreign participation in manufacturing, energy and service sectors, including state owned utilities. Current high oil prices do not appear to be undermining this commitment to reform.

Oman's accession to the WTO is imminent, and Saudi Arabia is energetically seeking WTO accession in 2000-01. If the recently agreed Gulf Cooperation Council, GCC, common tariff proceeds, by 2005, regional trade and investment could expand. Iran, with 65 million people (and possibly 120 million by 2050) shows signs of nascent economic reform, especially as US sanctions, which lapse in September 2001, may not be renewed (*Gulf Business*, 1999). All these developments expand business opportunities for Australian exporters, investors and service suppliers in sectors ranging from cars, food, education and tourism to infrastructure, oil and gas.

IMPLICATIONS FOR BUSINESS

Prospects to continue Australia's rapid trade growth with the Gulf region are good. Oil prices are likely to remain high in 2000 and 2001, and the Australian dollar is priced competitively compared to the US dollar and European currencies. Ongoing liberalisation of trade and foreign investment regimes, infrastructure and social service privatisation, major gas field developments, increased regional integration and rapid population growth will expand trade and investment opportunities. Hence, the 2000s, and 2000 to 2002 in particular, should be very good for seeking new markets or expanding existing ones in the Gulf economies.

Sectoral Opportunities

Major business opportunities include expanding both traditional agricultural and mineral exports, and developing new markets for elaborately transformed manufactures, ETMs, and services.

Agricultural Exports

Rapid population growth and fiscal pressures limiting the capacity of governments to expand domestic agricultural subsidies should expand bulk wheat, sugar, live sheep and frozen meat imports. With local incomes rising and air links improving, prospects also are good for higher value fresh and processed food exports, including dairy products, inputs for the processed food industry, and convenience and snack products.

Minerals and Energy

Major projects like the Dolphin gas pipeline should stimulate the Gulf's heavy industry development, boosting demand for Australian alumina and steel making resources. Further expansion of these heavy industries could stimulate Gulf interest in investing in Australian mineral sectors.

ETMs

Australian ETM exports to the Gulf, particularly cars, telecommunications equipment, construction materials and medicinal and pharmaceutical products are booming. While the headquarters of multinational car producers determine sourcing, Australian cars suit Gulf conditions and Australian manufacturers should have assured themselves a future share in these markets. The small industrial base of most Gulf economies means most Australian ETMs which are competitive in Australia, can be sold in the region, if they are well marketed.

Services

Excellent opportunities also exist for service exports, including infrastructure provision, education, tourism, construction, mining, financial and business services. Australian utilities are exploring opportunities as Gulf governments gradually privatise their power and water sectors. Youthful Gulf populations (two thirds are aged under 25 years) present major opportunities for in-country and Australian provided educational services; Australian institutions are exploring these opportunities.

Gulf nationals' tourism to Australia is strengthening, albeit from a low base; this potentially lucrative market is undeveloped as the Australian tourism industry has paid relatively little attention to it. Several major Australian construction firms operate successfully in the Gulf, mainly in the UAE. Numerous financial business and service providers also are present in the UAE and Bahrain.

Investment in the Gulf

Over the next decade, Australia's small but diverse investment presence in the Gulf, currently focused mostly on UAE manufacturing and services, and regional petroleum and gas sectors, could expand profitably into infrastructure, mining, manufacturing, finance, tourism, transport and business services throughout the region. The April 2000 Saudi decision to open its industrial sector to full foreign ownership and make tax concessions and concessional finance available to fully foreign owned firms should encourage other Gulf governments to liberalise their investment regimes. Over the next decade, Iran's foreign investment regime also should open slowly.

Chambers of Commerce

With the close linkages between government and chambers of commerce in Gulf economies, major Australian companies expanding their interest in the Gulf would benefit from more active involvement in the Australia Arab Chamber of Commerce. Their involvement also would help raise the status of the chamber.

IMPLICATIONS FOR GOVERNMENT

As Gulf governments take an active role in economic activity and development, strong Australian-Gulf state governmental relations open doors for Australian business.

Government Delegations

Australian governments can help raise Australia's trade and investment presence in the Gulf economies by continuing to encourage and lead high level business missions to the Gulf region. The large business delegation Trade Minister Vaile led to Bahrain, Saudi Arabia, Kuwait and the UAE in February and March 2000 raised Australia's profile with major Gulf governments and helped generate opportunities for Australian business people on the mission. Similarly, Foreign Minister Downer's visit to Tehran in July 2000, where he met the President, the Foreign Minister and the Minister for Petroleum, boosted the prospects of Australian resource companies interested in investing in Iran's oil, gas and minerals sectors; authorities in Iran evaluate major business opportunities in the context of political relations and the level of inter-governmental engagement.

However, to ensure each delegation achieves its full potential and avoid poor sequencing or timing, municipal, state and federal government business delegations should coordinate their activities.

Government Resources

Increasing trade flows mean the Department of Foreign Affairs and Trade and Austrade constantly monitor the appropriateness of their regional resources. Consequently, Australia's Abu Dhabi embassy soon will be accredited to Qatar.

Australian Government assistance is most important in enhancing education service exports and tourism prospects.

Education

Because of their traditional reliance on US and European educational institutions, generally, few Gulf students consider studying in Australia. However, Australia's relatively safe social environment, with lower cost but high quality educational institutions, provides potential to expand Australian education service exports to the Gulf economies.

Currently Australian posts and education offices in the Gulf region lack Australian based or Australian educated advisers who could assist students or parents with their inquires. Installing such officers is an important pre-requisite to expanding this potentially significant market; such resources should be maintained while demand justifies them. Improved visa issuance processes also would be helpful.

Tourism

Rapid growth in the numbers of Gulf tourists visiting Australia is mainly a result of personal recommendations and increased capacity from Emirates Airlines and Gulf Air. The Australian Tourism Commission coordinates promotion of Australian tourism in the Gulf. Most recently, in May 2000, a range of Australian exhibitors joined it at the Arab world's largest travel show in Dubai. It then led a roadshow to Abu Dhabi, Muscat, Bahrain, Kuwait, Riyadh and Jeddah to increase retail agents' awareness of Australia. Continuing efforts to promote Australia as a tourist destination will be valuable. Cumbersome visa processes constrain trade and faster visa turnaround times would promote tourism.

Increased tourism also is the key to increasing Gulf investment in Australia, educational exports and trade generally, as Gulf nationals gain familiarity with what Australia can offer.

Investment in Australia

Gulf investment in Australia centres on agriculture and the Australian hospitality industry, including tourism infrastructure, although more diverse investment, including in resources, is likely to follow. Australia's relatively low share of Gulf foreign investment creates considerable potential for increases. Already, the Gold Coast is an increasingly popular tourist destination for Gulf nationals, and becoming a focus of investment.

Air Links

Further expanding air links by Australian, Gulf or third party carriers is essential to underpin the growing trade, tourism and investment relationship between Australia and the Gulf region. Both Emirates and Gulf Air recently expanded their routes from Australia to the Gulf, but further expansion is desirable. Non-stop flights could expand trade opportunities as Australian fresh food exports would not then have to compete with computer parts loaded in Singapore. Emirates Airlines plans to offer some non-stop services from 2003.

Prospects

With oil prices buoyant and Gulf economies embracing reform, the Australian currency priced competitively and air links expanding, Australian trade and investment prospects in the Gulf appear bright. Over the coming decade, the UAE's rapid growth as a regional and continental hub, increasing integration within the Arabian Peninsula, ongoing Saudi reforms and Iran's slow opening will boost the attractiveness of the increasingly dynamic Gulf market.

REFERENCES

Gulf Business, 1999, 'Iranian Sanctions Crumble', Vol. 4, No. 2, June, www.gulfbusiness.com/cgi-local/index.cgi, accessed on 22 August 2000.

INFORMATION FOR COMPANIES

CONTACTS IN THE ARABIAN PENINSULA AND IRAN

Australian Government Representatives

Australian Embassy Riyadh, Saudi Arabia
Diplomatic Quarter
Riyadh
Kingdom of Saudi Arabia
Tel: (966 1) 488 7788
Fax: (966 1) 488 7973
Also accredited to Bahrain, Kuwait, Oman and Yemen

Austrade Riyadh
c/-Australian Embassy
Tel: (966 1) 488 7788
Fax: (966 1) 488 7458

Australian Embassy Abu Dhabi, UAE
14th Floor
Al Muhairy Centre
Sheikh Zayed the First Street
Abu Dhabi
United Arab Emirates
Tel: (971 2) 634 6100
Fax: (971 2) 639 3525
From October 2000, accredited to Qatar

Austrade Dubai
Australian Consulate-General Dubai
6th Floor
Dubai World Trade Centre
Dubai United Arab Emirates
Tel: (971 4) 313 444
Fax: (971 4) 314 812

Australian Embassy Tehran, Iran
No. 13, 23rd Street
Khalid Islambuli Avenue
Tehran 15138
Islamic Republic of Iran
Tel: (98 21) 872 4456
Fax: (98 21) 872 0484

Austrade Tehran
c/- Australian Embassy
Tel: (98 21) 872 0472
Fax: (98 21) 872 0490

State Government Representatives

Victorian Government Business Office
Dubai World Trade Centre
PO Box 9412
Dubai
United Arab Emirates
Tel: (971 4) 332 1898
Fax: (971 4) 332 8600
www.business.vic.gov.au

Chambers of Commerce

GCC

Federation of GCC Chambers
PO Box 2198
Dammam 31451
Saudi Arabia
Tel: (966 3) 826 5943 / 3792
Fax: (966 3) 826 6794
Email: fgccc@Zajilnet

UAE

Abu Dhabi Chamber of Commerce and Industry
PO Box 662
Abu Dhabi
United Arab Emirates
Tel: (971 5) 214 000
Fax: (971 5) 215 867
www.adcci-uae.com

Dubai Chamber of Commerce and Industry
PO Box 1457
Dubai
United Arab Emirates
Tel: (971 4) 228 0000
Fax: (971 4) 221 1646
Email: dcciinfo@dcci.org
www.dcci.org

Sharjah Chamber of Commerce and Industry
PO Box 580
Sharjah
United Arab Emirates
Tel: (971 6) 541 444
Fax: (971 6) 541 119

Iran

Iran Chamber of Commerce, Industry and Mines
254, Taleghani Avenue
15814 Tehran
Islamic Republic of Iran
Tel: (98 21) 884 6031
Fax: (98 21) 882 5111
www.iccim.org

Kuwait

Kuwait Chamber of Commerce and Industry
PO Box 775 Safat
13008 Kuwait
Kuwait
Tel: (965) 243 5801
Fax: (965) 240 4110

Oman

Oman Chamber of Commerce and Industry
Sheikh Salim bin Hilal Al-Khalili, President
PO Box 1400 Ruwi
Postal Code 112
Sultanate of Oman
Tel: (968) 707 674 / 84 / 94
Fax: (968) 708 497

Bahrain

Bahrain Chamber of Commerce and Industry
PO Box 248
Manama
Bahrain
Tel: (973) 229 555
Fax: (973) 241 294, 224 985, 212 937

Qatar

Qatar Chamber of Commerce and Industry
PO Box 402,
Doha
State of Qatar
Tel: (974) 621 491
Fax: (974) 621 131

Saudi Arabia

Council of Saudi Chambers of Commerce
and Industry
PO Box 16683
Riyadh 11474,
Saudi Arabia
Tel: (966 1) 405 3200
Fax: (966 1) 402 4747

Riyadh Chamber of Commerce and Industry
PO Box 596
Riyadh 11421
Saudi Arabia
Tel: (966 1) 404 0044
Fax: (966 1) 402 1103

Jeddah Chamber of Commerce and Industry
PO Box 1264
Jeddah 21431
Saudi Arabia
Tel: (966 2) 651 5111
Fax: (966 2) 651 7373

Yemen

Sanaa Chamber of Commerce and Industry
PO Box 195,
Sanaa
Republic of Yemen
Tel: (967 1) 234 761 / 2 / 3 / 4
Fax: (967 1) 232 412

Legal Contacts

The UK law firm, Trowers & Hamlins provided the information on legal issues contained in this report. Trowers & Hamlins maintains a network of offices and representatives across the region

Bahrain

Trowers & Hamlins
9th Floor
The Tower
Sheraton Commercial Complex
PO Box 3012
Manama
Bahrain
Tel: (973 5) 300 82
Fax: (973 5) 356 16
Email: bahrain@trowers-hamlins.com
www.trowers.com

Iran

International Law Office
Dr Behrooz Akhlaghi & Associates
17 Fourth Street
Ahmad Ghassir Ave (formerly Bukharest Ave)
PO Box 15745/759
Tehran 15146
Islamic Republic of Iran
Tel: (98 21) 873 6611 / 873 2138
874 8606 / 875 6341
Fax: (98 21) 873 4129 / 875 6342
Email: bakhlaghi@kanoon.net
www.intlaw.win.net

Kuwait

The Law Bureau: Ali Radwan & Partners
Salhiya Complex, Gate 8, 4th Floor
PO Box 2578
Safat – 13026, Kuwait
Tel: (965 2) 447 447 / 412 812
Fax: (965 2) 424 372

Oman

Trowers & Hamlins
Al Mawarid House
Muttrah Business District
PO Box 2991
Ruwi 112
Muscat
Sultanate of Oman
Tel: (968) 771 5500
Fax: (968) 771 5544
Email: trowers@gto.net.om/oman@ trowers.com
www.trowers.com

Qatar

Hassan A Al Khater Law Office
Advocates & Legal Consultants
2nd Floor, Qatar Cinema Company Building
Gulf Cinema Roundabout, C Ring Road
PO Box 1737
Doha
Qatar
Tel: (974) 443 7770
Fax: (974) 443 7772

Saudi Arabia

The Alliance
PO Box 6387
Jeddah 21442
Tel: (966) 650 4475
Fax: (966) 657 2007
www.saudilaw.de

United Arab Emirates

Trowers & Hamlins
PO Box 45628
4th Floor, Butti Al Otaiba Building
Khalifa Street
Abu Dhabi
Tel: (971 2) 626 7274
Fax: (971 2) 626 7276
Email: abudhabi@trowers-hamlins.com
www.trowers.com

Trowers & Hamlins
7th Floor
Rais Hassan Saadi Building
PO Box 23092
Dubai
Tel: (971 4) 3519 201
Fax: (971 4) 3519 205
Email: dubai@trowers-hamlins.com
www.trowers.com

Yemen

Dr A M A Maktari
PO Box 111
Sana'a
Republic of Yemen
Tel: (967 1) 248 018 / 206 954
Fax: (967 1) 265 320

Business Contacts and Associations

Australian Business in the Gulf, ABIG
PO Box 20183
Dubai
United Arab Emirates
Tel: (971 4) 265 2781
Fax: (971 4) 222 3246
Email: abigdxb@emirates.net.ae

Iran Australia Joint Chamber of Commerce
254, Taleghani Avenue
Tehran 15814
Iran
Tel: (98 21) 884 6031
Fax: (98 21) 882 5111

Free Trade Zones and Investment Promotion Agencies

Jebel Ali Free Zone Authority
PO Box 17000
Jebel Ali
Dubai
United Arab Emirates
Tel: (971 4) 881 5000
Fax: (971 4) 881 5001

Dubai Ports Authority
PO Box 2149
Dubai
United Arab Emirates
Tel: (971 4) 511 600
www.dpa.co.ae

Dubai Airport Free Zone
PO Box 2525
Dubai
United Arab Emirates
Tel: (971 4) 206 1111
Fax: (971 4) 244 399

Sharjah Airport International Free Zone
PO Box 8000
Sharjah
United Arab Emirates
Tel: (971 6) 557 0000
Fax: (971 6) 557 1010
Email: saifzone@emirates.net.ae
www.saif-zone.com

Hamriyah Free Zone
PO Box 1377,
Sharjah
United Arab Emirates
Tel: (971 6) 526 3333
Fax: (971 6) 526 3444
Email: hfz@emirates.net.ae
www.hamriyah.com

Iran High Council of Free Trade and Industrial Zones
23 Esfandiar Boulevard
Africa Expressway (formerly Jordan Street)
Tehran
Iran
Tel: (98 21) 205 4960 - 205 4784
Fax: (98 21) 205 8657
Email: iftz@www.dci.co.ir

Oman Centre for Investment Promotion and Export Development
PO Box 25
Wadi al-Kabir 117
Muscat
Sultanate of Oman
Tel: (968) 771 2344
Fax: (968) 771 0890
www.ociped.com

Kuwait Free Trade Zone
PO Box 64585 Shuwaikh
B-Postal Code 70456 Kuwait
Kuwait
Tel: (965) 802808
Fax: (965) 4822067
Email: info@nrec.com.kw
www.kuwaitfreezone.com/english/index.html

Kuwait Investment Authority
PO Box 64, 13001
Safat
Kuwait
Tel: (965) 243 5801
Fax: (965) 240 4110
www.kia.gov.kw

Yeminvest
PO Box 4165,
Crater- Aden
Republic of Yemen
Tel: (967 2) 234 871 / 6 or 234 789
Fax: (967 2) 234 790 or 234 880

General Investment Authority of Yemen
PO Box 19022,
Sanaa
Republic of Yemen
Tel: (967 1) 262 958
Fax: (967 1) 262 964
Email: gias@y.net.ye

CONTACTS IN AUSTRALIA

Diplomatic Missions and Commercial Offices

Royal Embassy of Saudi Arabia
38 Guilfoyle Street
Yarralumla ACT 2600
Tel: (02) 6282 6999
Fax: (02) 6282 8911

Embassy of the Islamic Republic of Iran
25 Culgoa Circuit
O'Malley ACT 2606
Tel: (02) 6290 2427
Fax: (02) 6290 2431

Embassy of the United Arab Emirates
36 Culgoa Circuit
O'Malley ACT 2606
Tel: (02) 6286 8802
Fax: (02) 6286 8804

Office of Dubai Department of Business and Commerce Marketing
Level 7, 210 Clarence Street
Sydney NSW 2000
Tel: (02) 9267 7871
Fax: (02) 9283 1202
Email: dubai@dtcm-sydney.com
www.dubaitourism.co.ae

Arabian Peninsula Government Representatives in Asia-Pacific

Note: Kuwait, Bahrain, Oman, Qatar and Yemen Kuwait do not maintain embassies in Australia.

Embassy of the State of Kuwait
4-13-12 Mita
Minato-ku, Tokyo 108-0073
Japan
Tel: (81 3) 3455 0361
Fax: (81 3) 3456 6290

Embassy of the Sultanate of Oman
2-28-11, Sendagaya, Shibuya-ku
Tokyo 151-0051
Japan
Tel: (81 3) 3402 0877
Fax: (81 3) 3404 1334

Embassy of the State of Qatar
2-3-28, Moto-Azabu
Minato-ku Tokyo 106-0046
Japan
Tel: (81 3) 5475 0611
Fax: (81 3) 5475 0617

Embassy of the Republic of Yemen
No 38 Kowa Boulevard
4-12-24 Nishi Azabu, Minato-ku
Tokyo 106-0031
Japan
Tel: (81 3) 3499 7151
Fax: (81 3) 3499 4577

Australian Government Organisations

Department of Foreign Affairs and Trade
Middle East Section
RG Casey Building
John McEwen Crescent
Barton ACT 0221
Tel: (02) 6261 1111
Fax: (02) 6261 3111
www.dfat.gov.au

Austrade (Canberra Office)
Middle East and Indian Ocean Office
RG Casey Building
John McEwen Crescent
BARTON ACT 0221
Tel: (02) 6201 7611
Fax: (02) 6201 7305
www.austrade.gov.au

Austrade (Head Office, Sydney)
22nd Floor, AIDC Tower
201 Kent Street
Sydney NSW 2000
Export Hotline: 13 28 78
Tel: (02) 9390 2000
Fax: (02) 9390 2922
www.austrade.gov.au

Chambers of Commerce and Business Councils

Australia-Arab Chamber of Commerce and Industry Inc
PO Box E14
Kingston ACT 2604
Tel: (02) 6270 8037
Fax: (02) 6273 3196

Australia Iran Chamber of Commerce Industry and Mines
Commerce House
Barton ACT 2600
Tel (02) 6273 2311
Fax: (02) 6273 3196

The Australia Middle East Defence Export Council
PO Box 77
West Lindfield NSW 2070
Tel: (02) 9499 4020
Fax: (02) 9499 4021

INDEX

M

N

O

P

ALSO BY THE EAAU

Transforming Thailand: Choices for the New Millennium
Published June 2000 (ISBN 0 642 70469 4), 228 pages, A$33

Asia's Financial Markets: Capitalising on Reform
Published November 1999 (ISBN 0 642 56561 9), 376 pages, A$35

Korea Rebuilds: From Crisis to Opportunity
Published May 1999 (ISBN 0 642 47624 1), 272 pages, A$30

Asia's Infrastructure in the Crisis: Harnessing Private Enterprise
Published December 1998 (ISBN 0 642 50149 1), 250 pages, A$30

The Philippines: Beyond the Crisis
Published May 1998 (ISBN 0 642 30521 8), 328 pages, A$25

The New Aseans - Vietnam, Burma, Cambodia and Laos
Published June 1997 (ISBN 0642 27148 8), 380 pages, A$20

A New Japan? Change in Asia's Megamarket
Published June 1997 (ISBN 0 642 27131 3), 512 pages, A$20

China Embraces the Market: Achievements, Constraints and Opportunities
Published April 1997 (ISBN 0 642 26952 1), 448 pages, A$20

Asia's Global Powers: China-Japan Relations in the 21st Century
Published April 1996 (ISBN 0 642 24525 8), 158 pages, A$15

Pacific Russia: Risks and Rewards
Published April 1996 (ISBN 0 642 24521 5), 119 pages, A$15

Iron and Steel in China and Australia
Published November 1995 (ISBN 0 642 24404 9), 110 pages, A$15

Growth Triangles of South East Asia
Published November 1995 (ISBN 0 642 23571 6), 136 pages, only available online

Overseas Chinese Business Networks in Asia
Published August 1995 (ISBN 0 642 22960 0), 372 pages, A$20

Subsistence to Supermarket: Food and Agricultural Transformation in South-East Asia
Published August 1994 (ISBN 0 644 35093 8), 390 pages, A$15

Expanding Horizons: Australia and Indonesia into the 21st Century
Published June 1994 (ISBN 0 644 33514 9), 364 pages, A$15

India's Economy at the Midnight Hour: Australia's India Strategy
Published April 1994 (ISBN 0 644 33328 6), 260 pages, A$15

ASEAN Free Trade Area: Trading Bloc or Building Block?
Published April 1994 (ISBN 0 644 33325 1), 180 pages, A$15

Changing Tack: Australian Investment in South-East Asia
Published March 1994 (ISBN 0 644 33075 9), 110 pages, A$10

Australia's Business Challenge: South-East Asia in the 1990s
Published December 1992 (ISBN 0 644 25852 7), 380 pages, A$15

Southern China in Transition
Published December 1992 (ISBN 0 644 25814 4), 150 pages, A$10

Grain in China
Published December 1992 (ISBN 0 644 25813 6), 150 pages, A$10

Korea to the Year 2000: Implications for Australia
Published November 1992 (ISBN 0 644 27819 5), 150 pages, A$10

Australia and North-East Asia in the 1990s: Accelerating Change
Published February 1992 (ISBN 0 644 24376 7), 318 pages, A$15

Prices cited are current discounted prices inclusive of GST

Forthcoming Reports (working titles only)

A New Indonesia: Opportunities and Risks, late 2000
India: Economic Reform and Opportunities, June 2001
Latin America: Trade and Investment Opportunities, April 2001
Corporate Governance in Asia: Progress and Problems, July 2001

Reports and full publications catalogues can be obtained from:
Jane Monico
Market Information and Analysis Unit
Department of Foreign Affairs and Trade
RG Casey Building, John McEwen Crescent
Barton ACT 0221, Australia
Telephone: 62 2 6261 3114 Facsimile: 61 2 6261 3321
Email: jane.monico@dfat.gov.au
Internet: www.dfat.gov.au/eaau/
gives access to executive summaries, tables of contents,
many full reports, details of briefing papers and order forms