

DIFFICULT ECONOMIC CHALLENGES & BIG BUSINESS OPPORTUNITIES IN THE GULF COUNTRIES

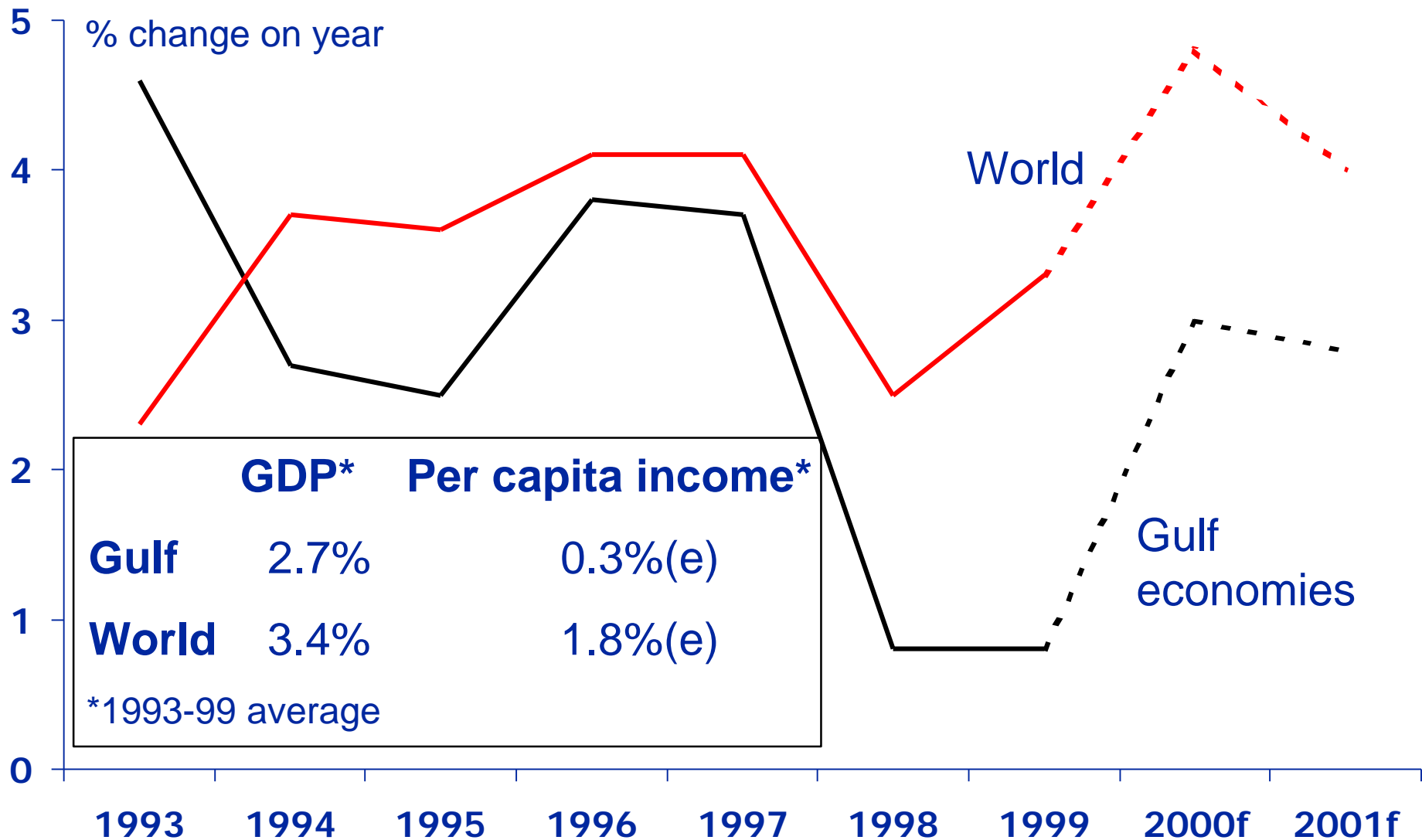
**Barry Coulthurst, Senior Economist
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13 September 2000

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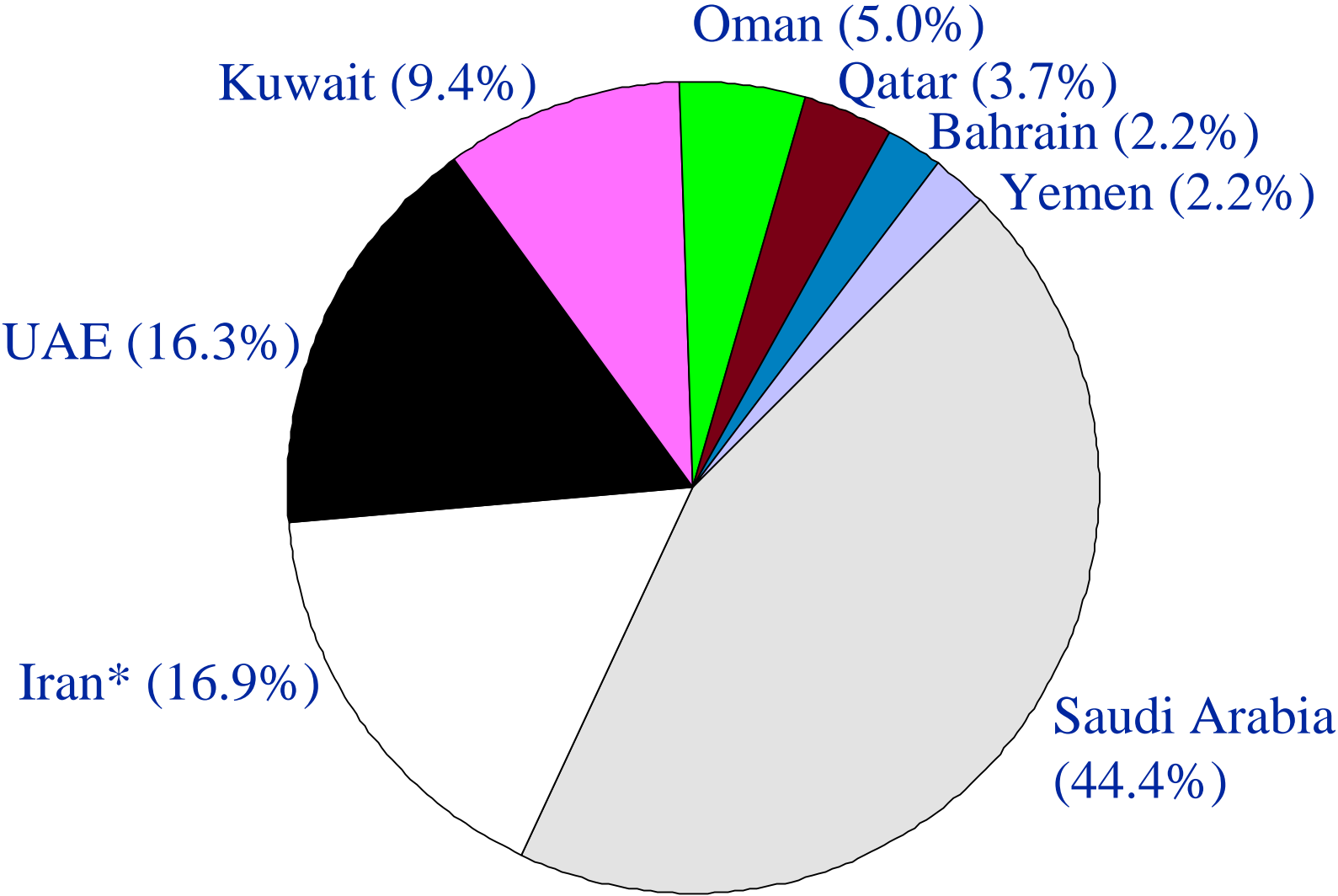
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SLUGGISH GROWTH IN THE GULF COUNTRIES



Sources: IMF, Economist Intelligence Unit, ANZ Bank estimates

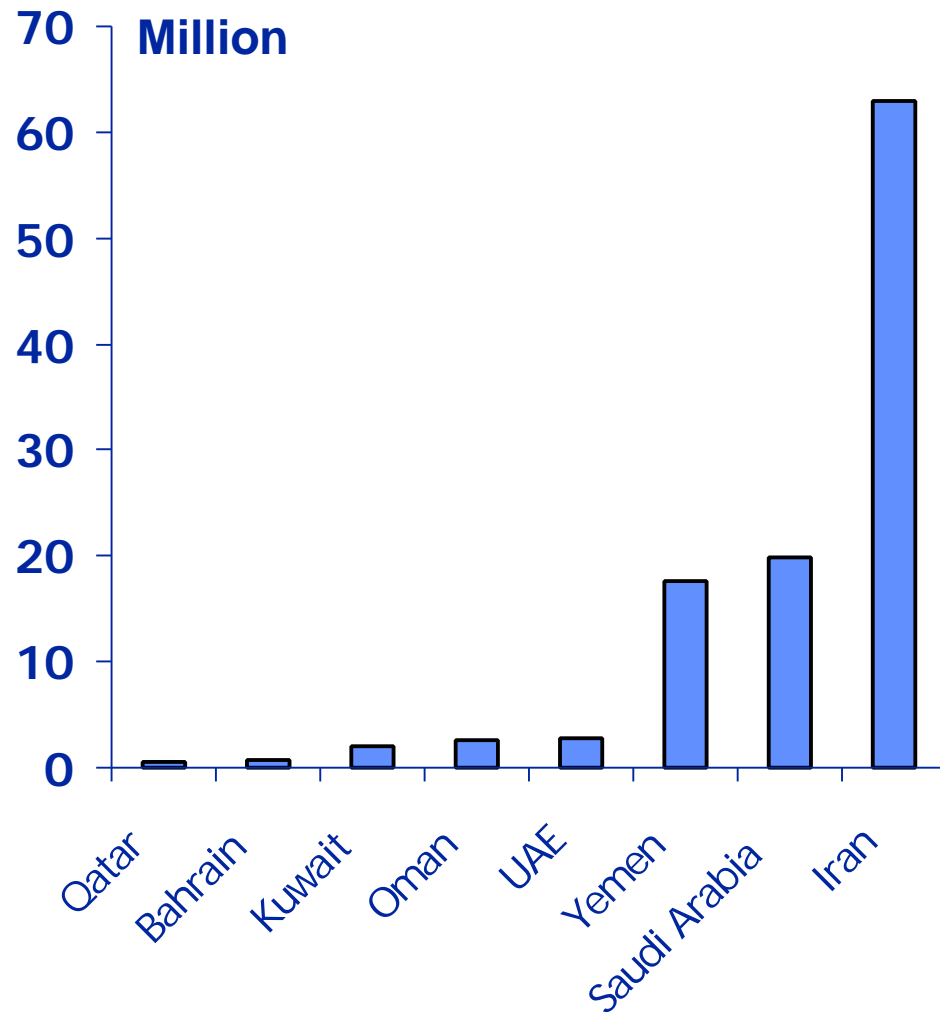
GULF COUNTRIES: SHARE OF GDP



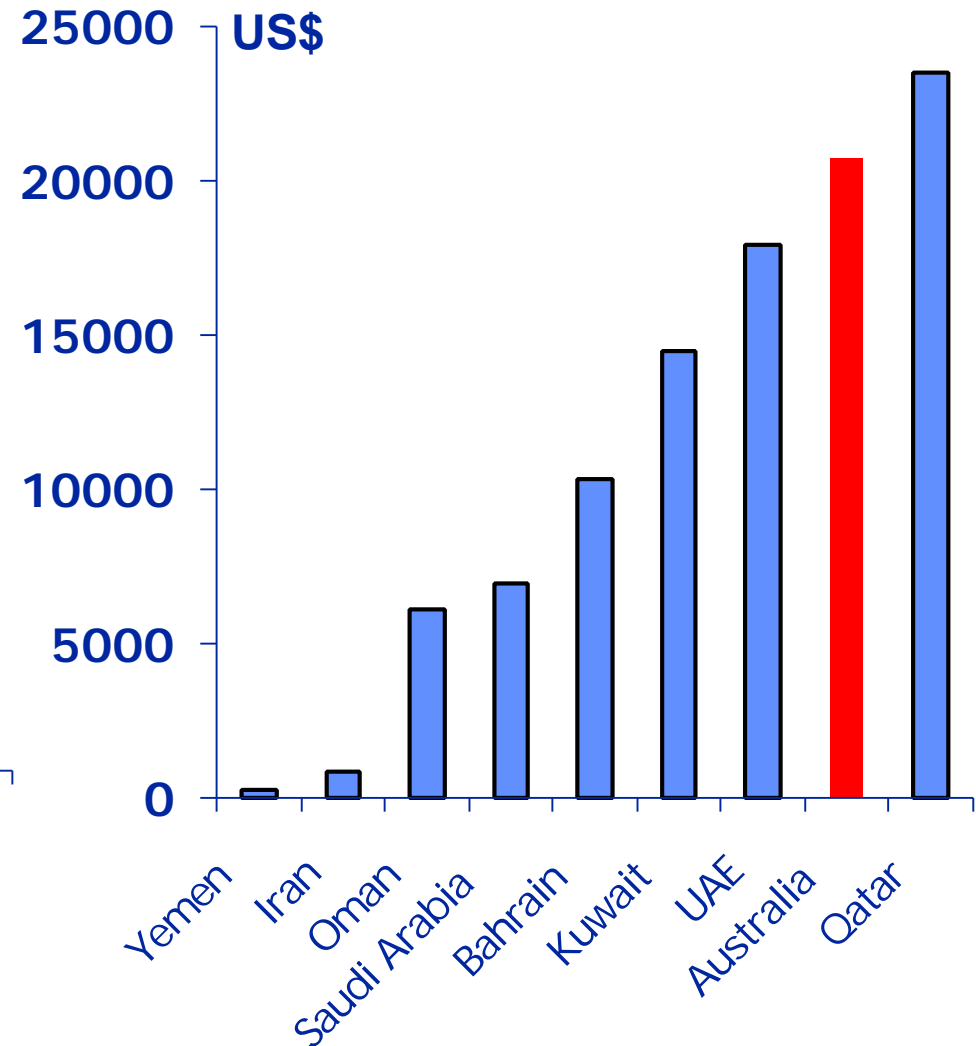
Sources: IMF, Economist Intelligence Unit. * using 'export' exchange rate

GULF COUNTRIES: BASIC FEATURES 1999

POPULATION

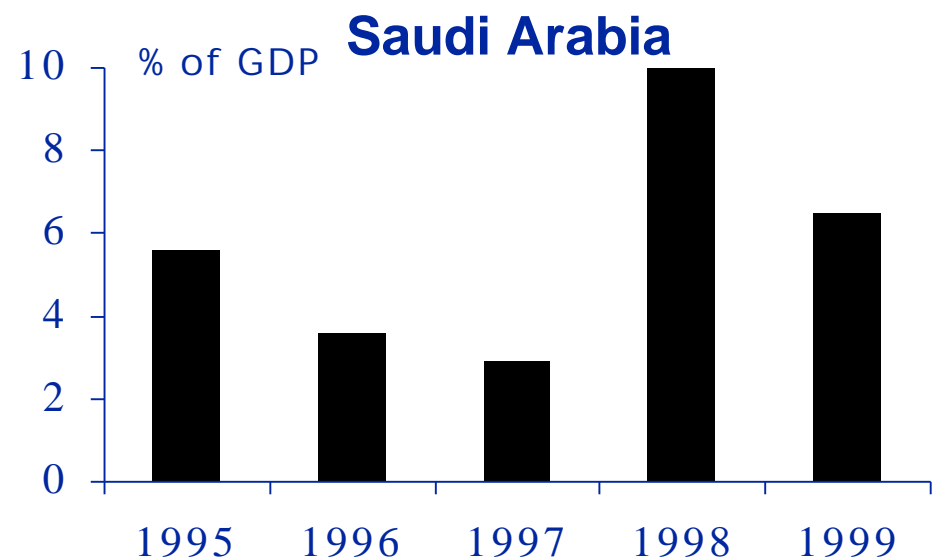
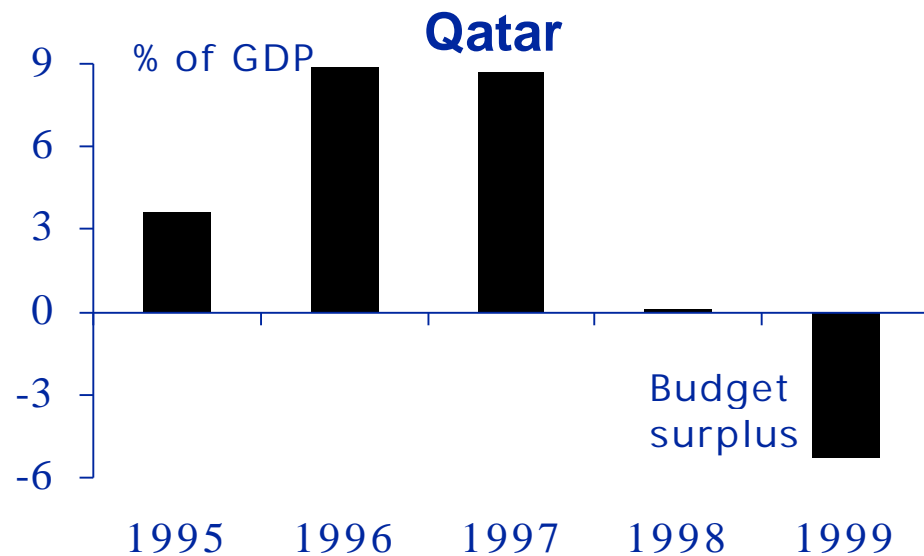
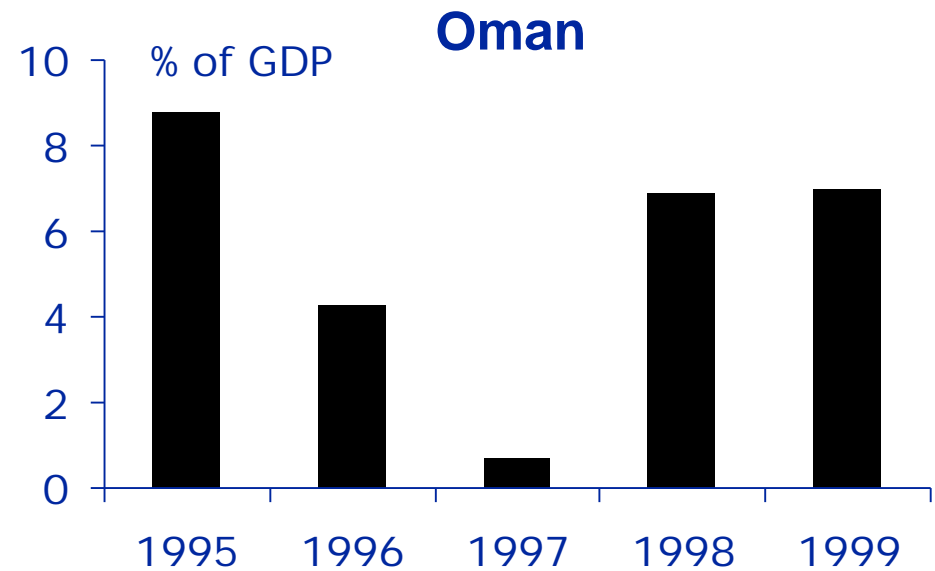


PER CAPITA INCOME



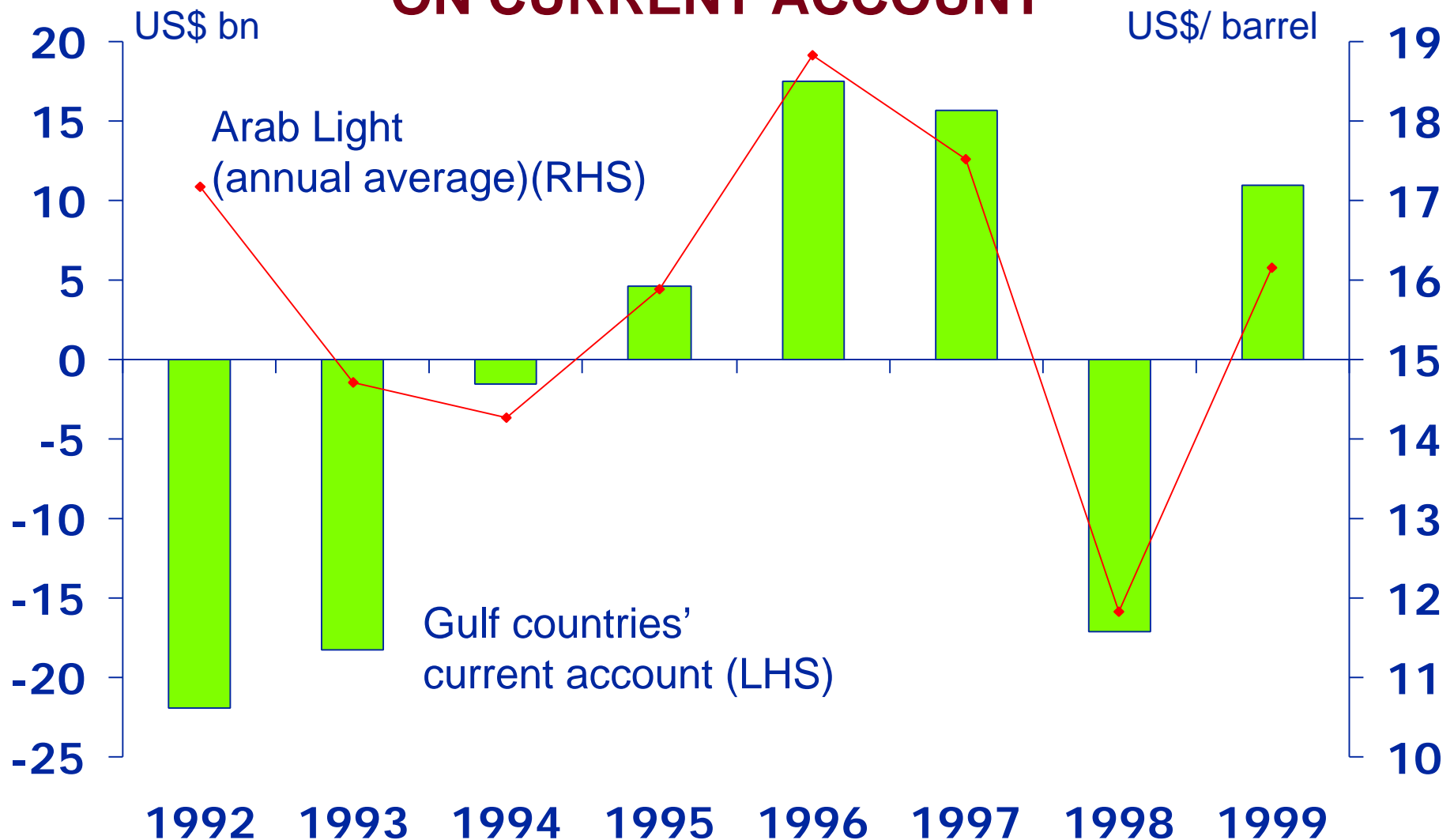
Sources: IMF, Economist Intelligence Unit

LARGE FISCAL DEFICITS IN MANY COUNTRIES



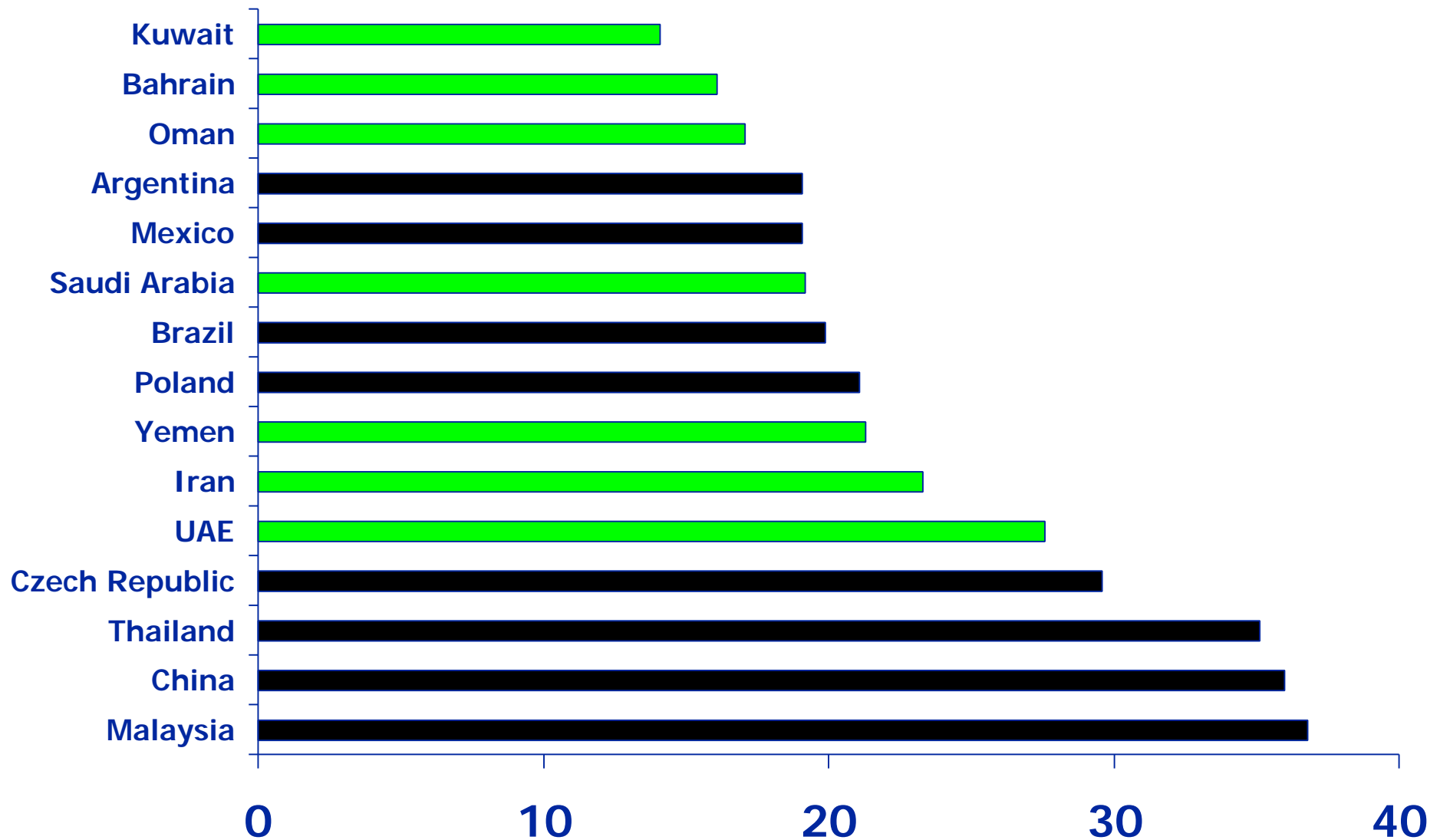
Sources: Institute of International Finance, Economist Intelligence Unit

HEAVY DEPENDENCE ON OIL PRODUCES BIG SWINGS ON CURRENT ACCOUNT



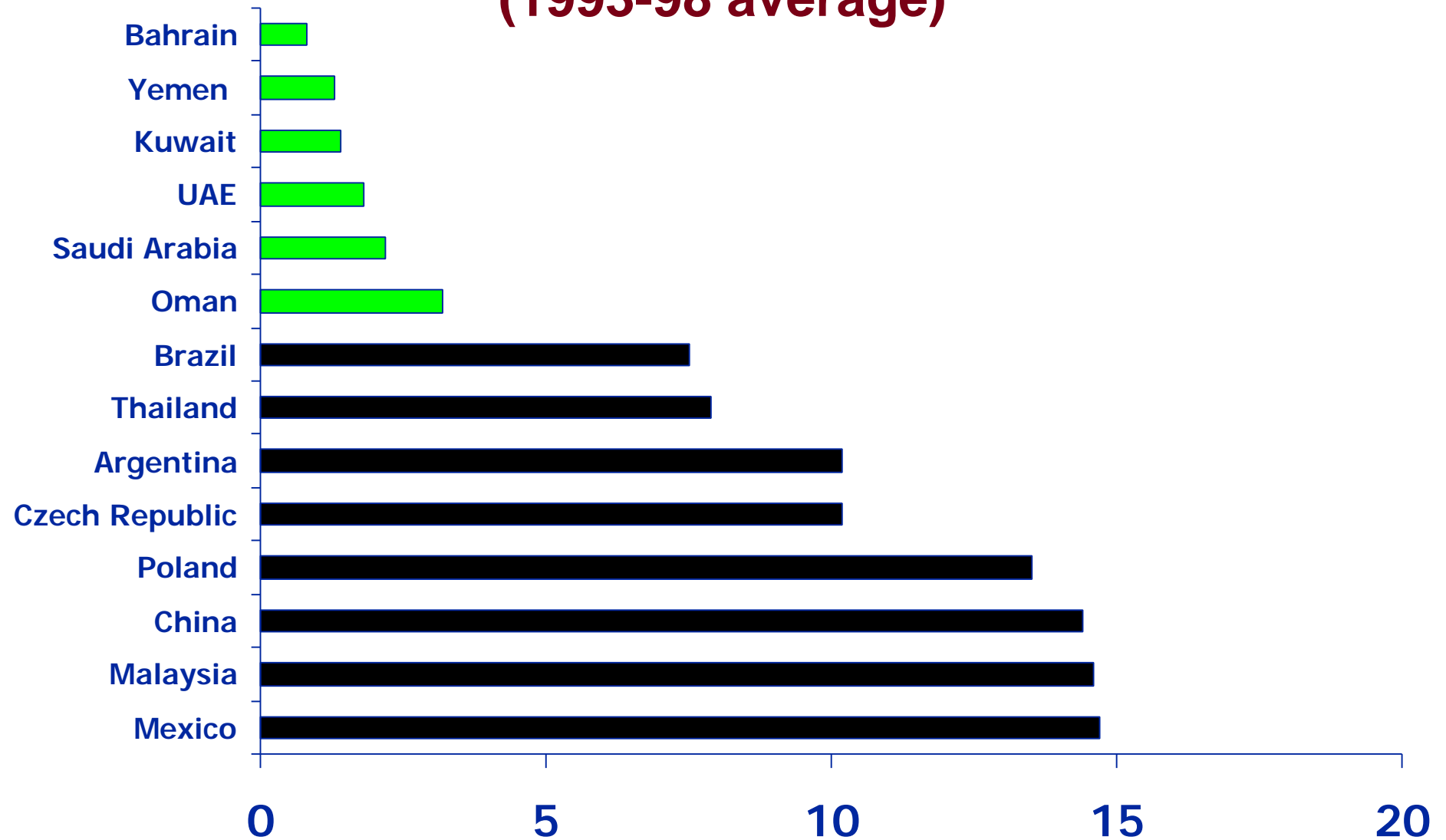
Sources: IMF, Economist Intelligence Unit

INVESTMENT AS SHARE OF GDP (1993-99 average)



Source: IMF

FDI AS SHARE OF GROSS FIXED CAPITAL FORMATION (1993-98 average)



Source: IMF, UN World Investment Report

GULF COUNTRIES: ECONOMIC REFORM

- **Restructuring will be difficult because economies are highly centralised, protected and with low exposure to competitive world markets.**
- **Investment is low relative to GDP, and FDI is low relative to total investment.**
- **WTO membership will trigger major changes.**
- **Awareness of social & political realities. Middle East countries generally reject market-oriented solutions to social problems.**
- **Each country has different economic structures and rates of growth, but requirements for reform are broadly similar.**

ECONOMIC REFORM: WHAT IS REQUIRED?

- **Good legal & regulatory systems, & greater policy transparency.**
- **Tax reform & better spending control to reduce fiscal deficits.**
- **Privatisation to overcome budgetary constraints on infrastructure development and boost private sector.**
- **Motivated private sector.**
- **Labour market reform.**
- **Trade and foreign investment liberalisation.**
- **Strong, determined leadership to “push” reform.**
- **Reform/modernise education.**

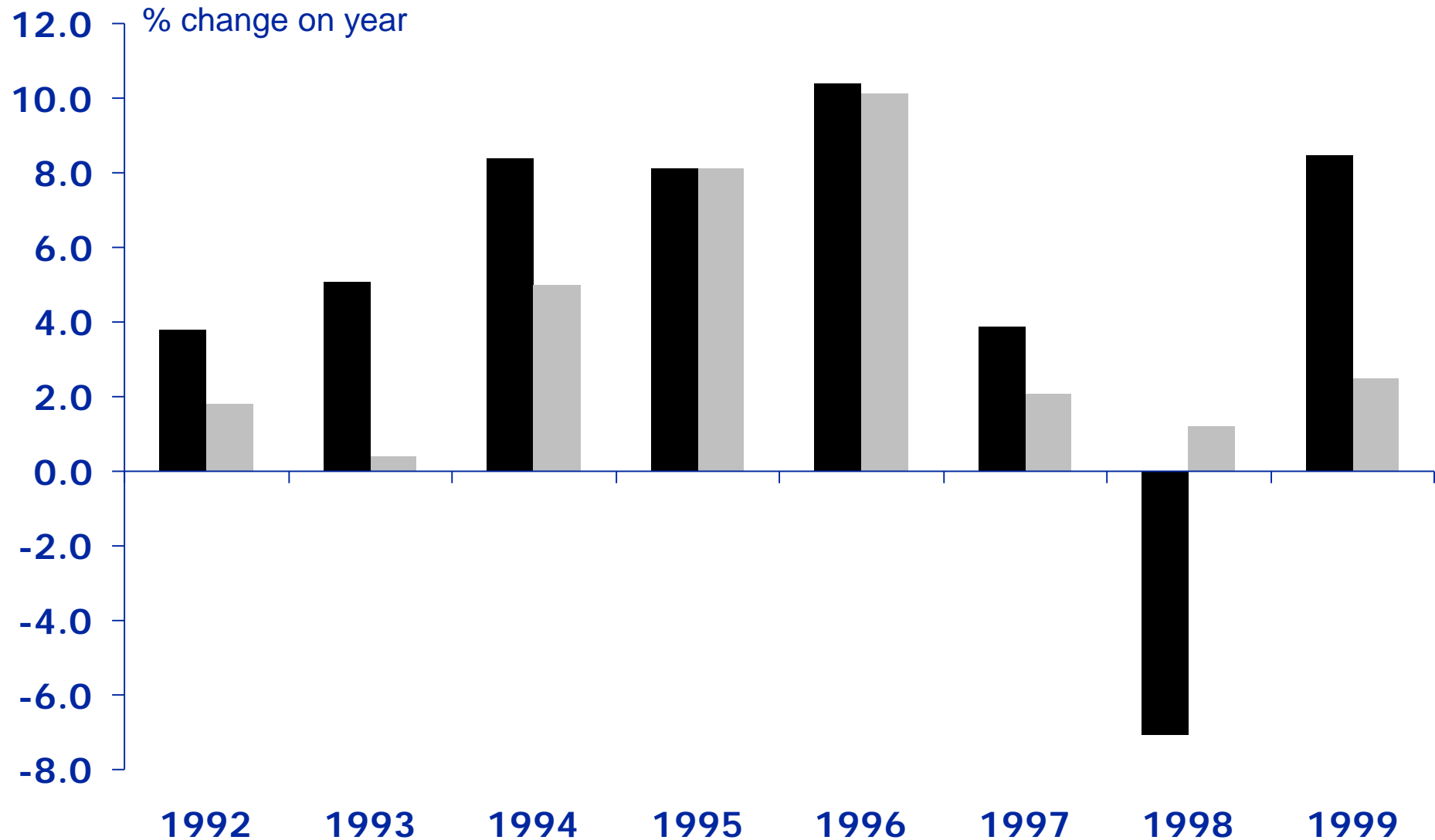
INADEQUATE ECONOMIC DATA

IMF standards

- **Real GDP statistics are not available for Qatar or the UAE, and do not go beyond 1996 for Kuwait.**
- **Current price GDP figures, broken down by components of demand, are out-of-date in Qatar (1997) and Bahrain and UAE (1998).**
- **Consumer price inflation data are not available for the UAE and are out-of-date in Qatar (1997) and Yemen (1998).**

In countries where economic data are inadequate, estimates of (say) real GDP growth can vary widely and revisions may be substantial e.g. Qatar and UAE.

UAE: ESTIMATES OF REAL GDP GROWTH



Source: IMF(April 2000), EIU (September 2000)

AUSTRALIAN-GULF BUSINESS ANZ IN THE MIDDLE EAST

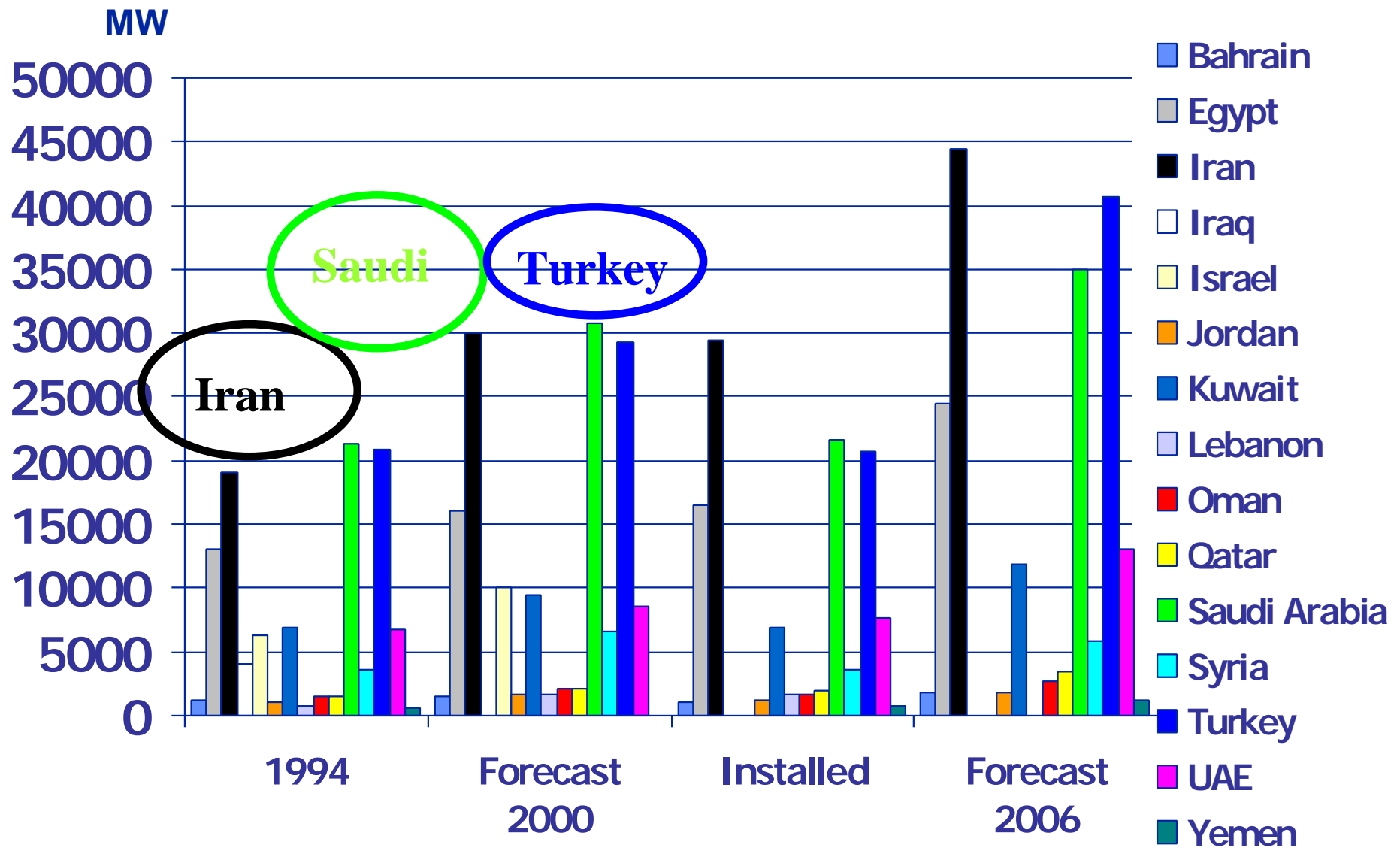
- **ANZ Investment Bank offers project, corporate, trade, and Islamic finance through its Bahrain office.**
- **The office services Egypt, Jordan and Turkey, as well as the Gulf countries.**
- **Its sectoral expertise covers oil, gas and petrochemicals, power, water, natural resources, media, telecommunications, infrastructure and industrial transport.**

ANZ Investment Bank is separate from ANZ Grindlays, the retail banking network recently sold to Standard Chartered Bank.

OIL & GAS

- **Role of foreign capital in developing the oil sector uncertain, but big opportunities in the gas sector.**
- **Reasonable prospects that Middle Eastern oil production as a percentage of world total will return to the levels of 1973 and 1979 (57%) by 2010 (1998 - 31%)**
- **Annual investment in the gas sector expected to average USD3-4bn over next 10 years.**
- **Saudi Arabia's key objective is an industrial base fuelled by gas, not exports.**
- **Oil, gas & petrochemicals-related projects accounted for 54% of foreign finance during 1995-99.**

POWER – INSTALLED CAPACITY & FORECAST CAPACITY



POWER

- Average annual increments in electricity use throughout the Middle East should approach 6% - requiring USD 300 billion of new electricity infrastructure over 10 years.
- Most countries need to raise the level of transparency inherent in their commercial and legal codes - Abu Dhabi has addressed some of these issues.
- Most countries have failed to obtain private capital for new electricity infrastructure.
- Unless oil price remains significantly higher than USD 25 per barrel for the long term, no country, with the possible exception of Kuwait, will be able to underwrite new electricity infrastructure finance solely on the basis of budgetary revenues between now and 2010.
- Big imbalance between projected power requirements & availability of international finance.

WATER

- Middle East accounts for 5% of world population , but has less than 1% of renewable freshwater reserves.
- More desalination plants will be built (ME accounts for 60% global capacity) but only part of water policy.
- World Bank estimates the necessary investment in MENA over the period to 2008 at USD4.5-6.0 billion per annum.
- Private sector involvement is vital.
- Gulf States are calling for BOT proposals for desalination and waste water treatment.
- First privately financed water project in the GCC will be the Sulaibiya BOT in Kuwait.

TELECOMMUNICATIONS

- **Bahrain and the UAE continue to use the latest technology and boast some of the highest rates of penetration.**
- **Strict regulatory frameworks are still in place.**
- **Privatisation and liberalisation are here to stay.**
- **The extent to which governments and regional telecommunications entities commit themselves remains to be seen, but the prognosis is good.**

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