

## 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 transshipment 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

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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).<sup>1</sup>

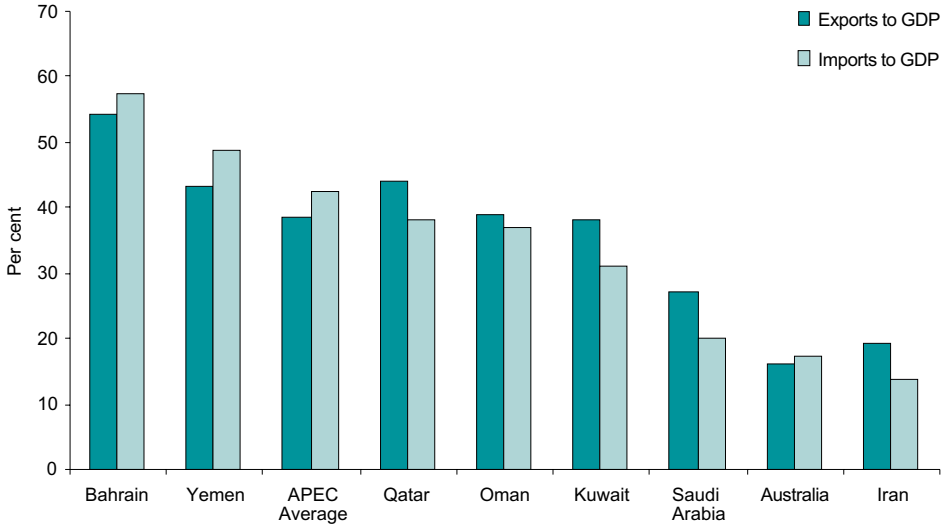
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<sup>1</sup> The export values for 1998, the latest available official statistics, are considerably lower than 1997 figures due to lower oil prices. For example, in 1997, Saudi exports were US\$66 billion and Iranian exports US\$21 billion.

Figure 5.1

### Gulf Region Has Relatively Open Economies

#### Ratio of Merchandise Exports and Imports to GDP, 1998

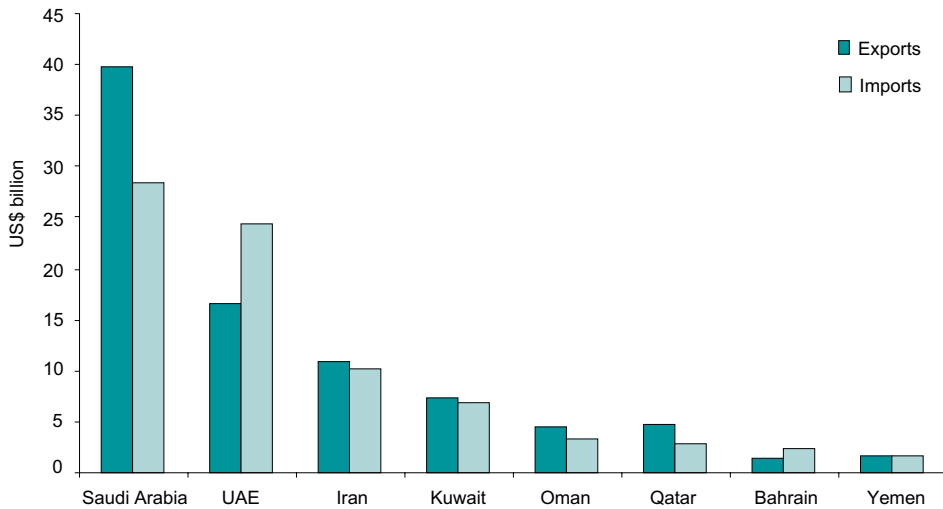


Source: Datastream, 2000; and Department of Foreign Affairs and Trade, 2000a.

Figure 5.2

### Saudi Arabia, the UAE, Iran and Kuwait Dominate Regional Trade

#### Gulf Merchandise Exports and Imports, 1998, US Dollars



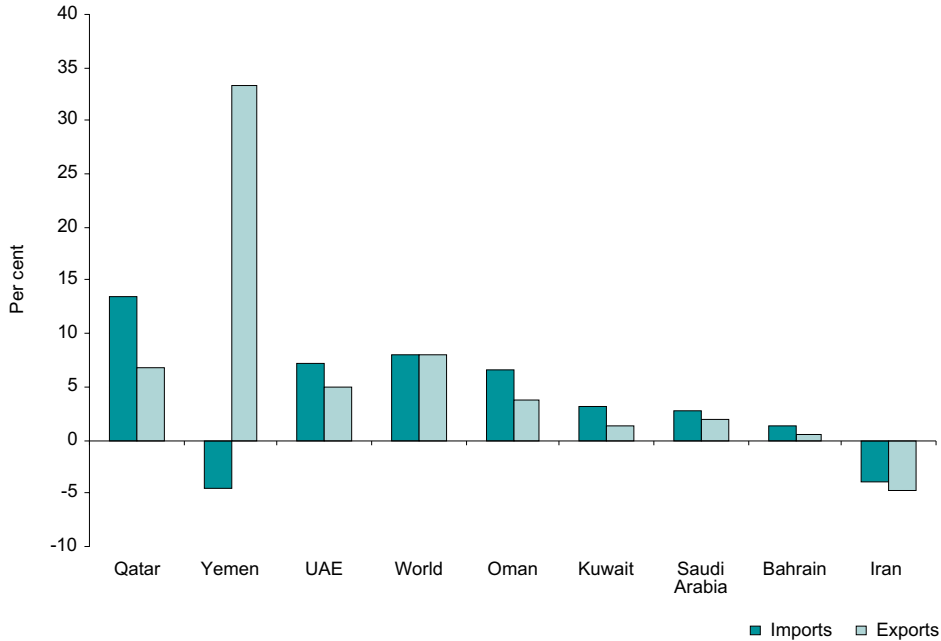
Note: International Economic Data Bank data for exports and imports were used for all economies except Saudi Arabia, where oil export data was clearly understated. Business Monitor International data were used for Saudi exports for 1998.

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**

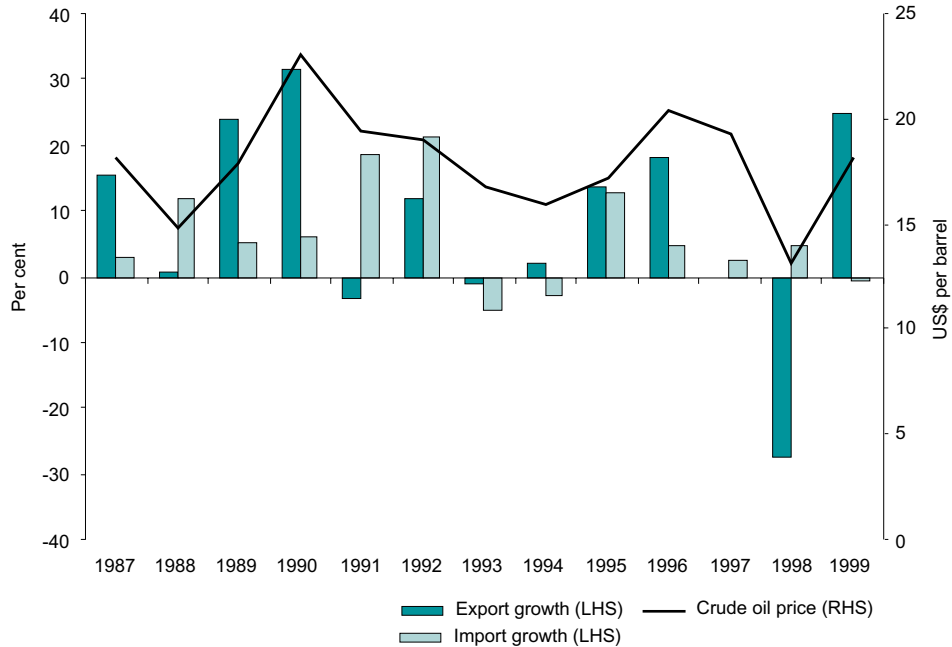
Oil prices rose rapidly from their low of below US\$10 per barrel in December 1998 to over US\$25 since December 1999; this expanded Gulf Cooperation Council, GCC, economies’ exports by an estimated 25 per cent in 1999 (Figure 5.4). Effects on imports lag about a year, but on past experience, imports should grow 15 to 20 per cent in 2000 and 2001.<sup>2</sup>

<sup>2</sup> 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.

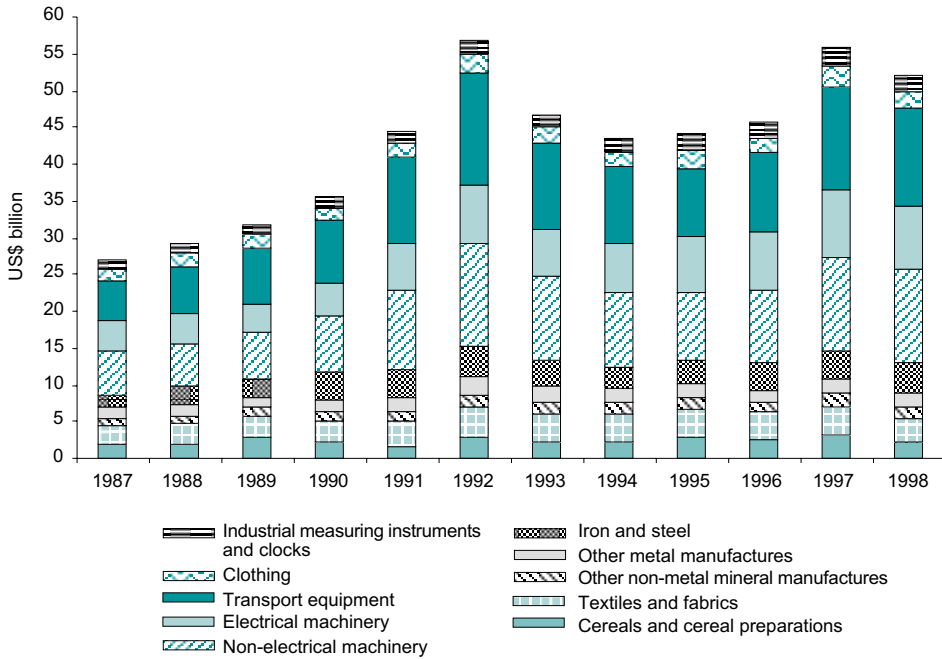
Source: Business Monitor International, 2000a; Gulf Cooperation Council, 1999; and International Monetary Fund, 2000.

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.<sup>3</sup>

**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).

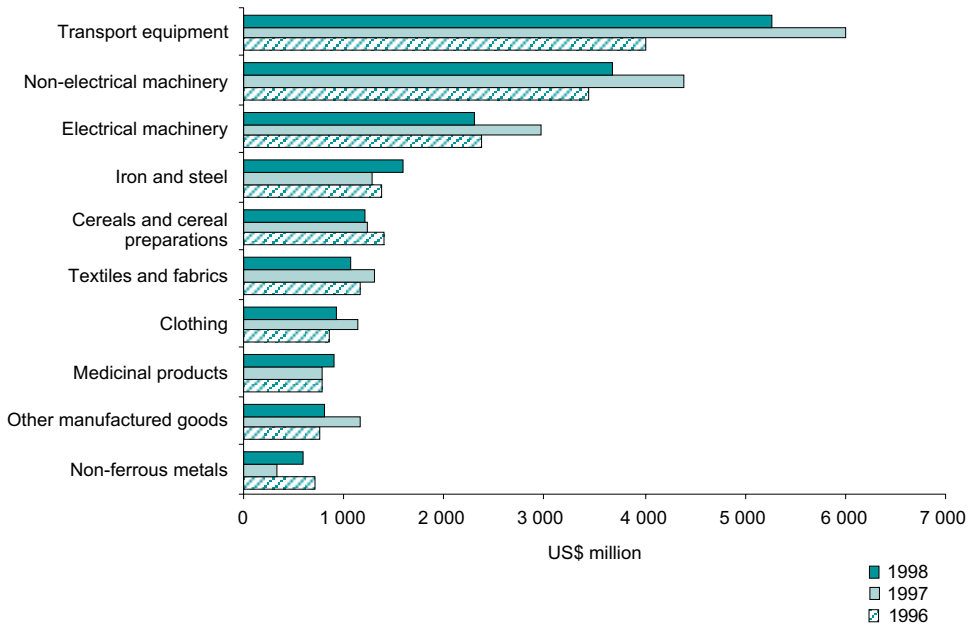
Except for Iran and Yemen, major Gulf economy imports include a mix of non-electrical and electrical machinery, transport equipment, iron and steel, general manufactures and foodstuffs. However, the pace of import growth varies considerably, and domestic considerations determine the precise import mix.

<sup>3</sup> 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.

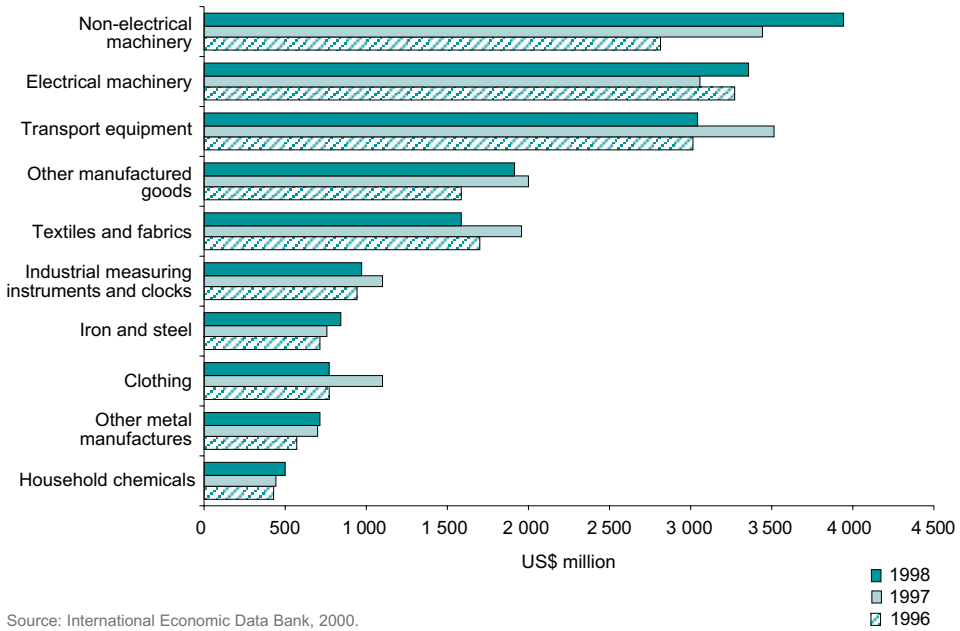
### Saudi Arabia

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).

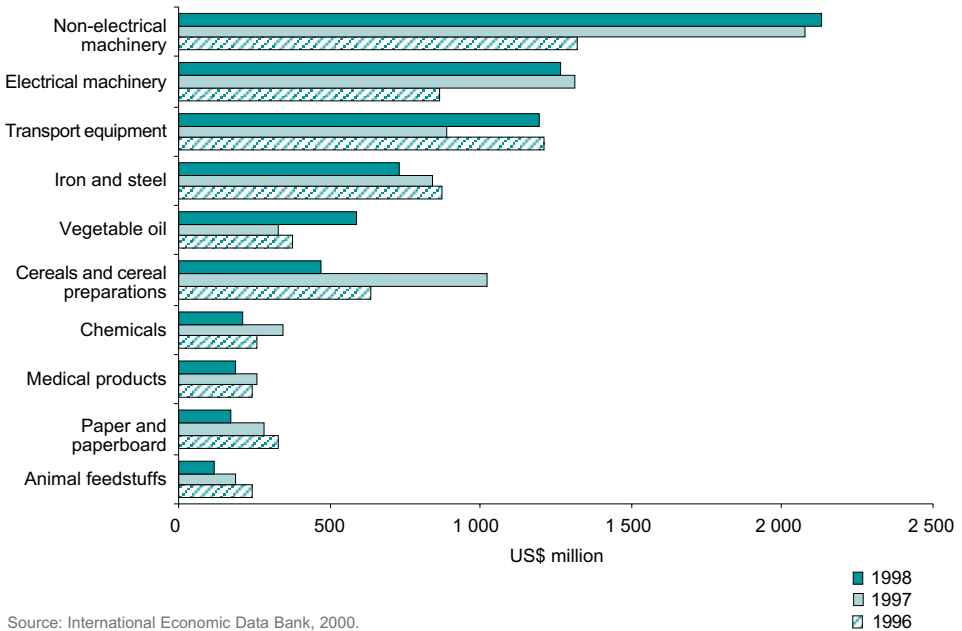
Rapidly growing imports between 1993 and 1998 include transport equipment (up 17 per cent on average per year to US\$3.0 billion in 1998), machinery (up 16 per cent to US\$7.3 billion), industrial measuring instruments and clocks (up 15 per cent to US\$972 million), household chemicals and cleaning products (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

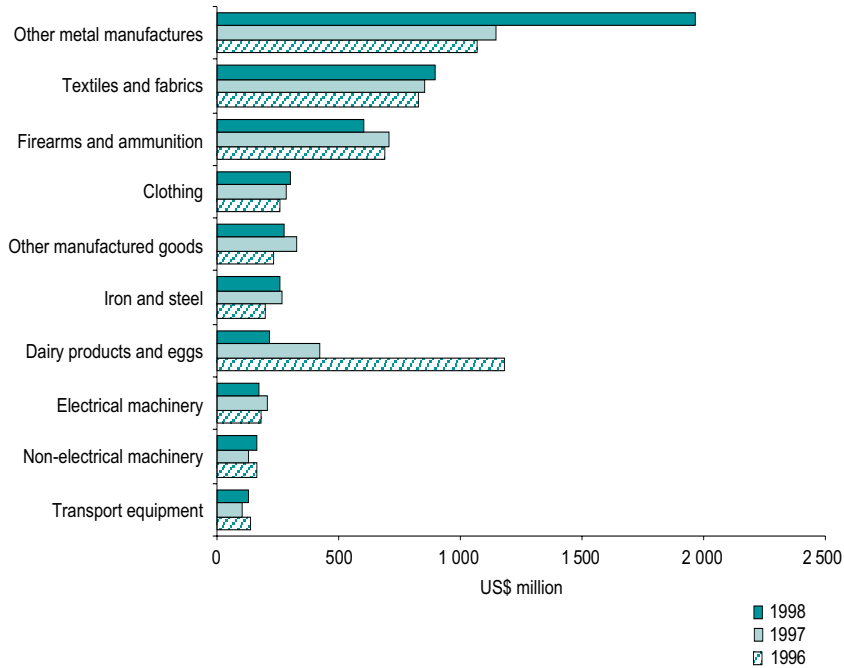
Due to the relatively large size of its economy by Gulf standards, its policy of compressing imports and strict import controls, Iran's imports as a share of GDP are relatively low (Figure 5.1). Its import profile is heavily skewed towards bulk foodstuffs and essential capital goods, reflecting recent 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.

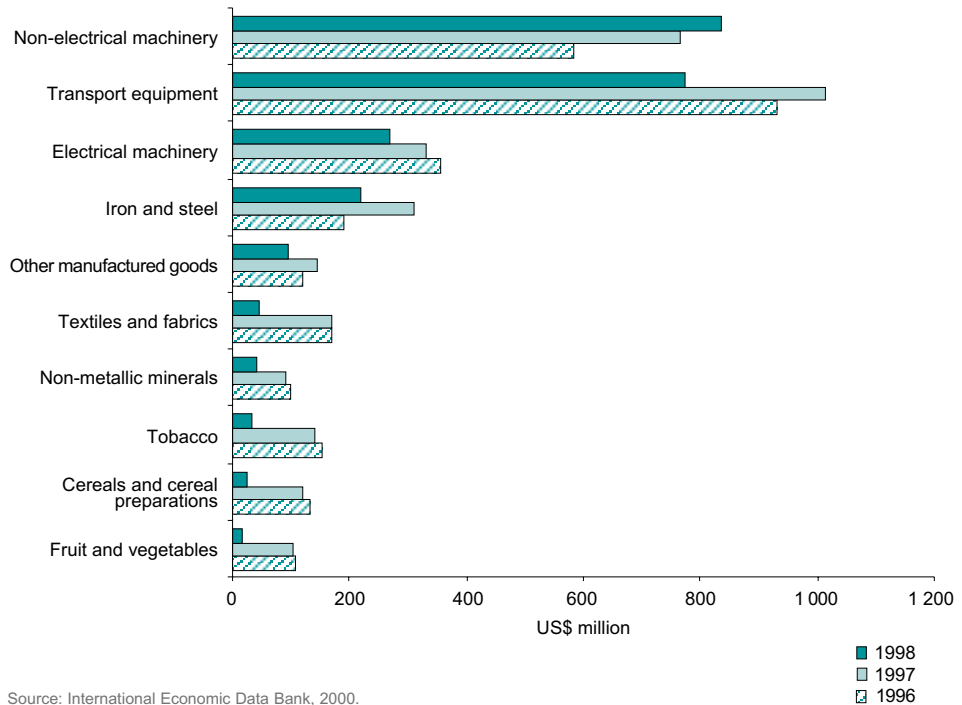
**Kuwait**

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.

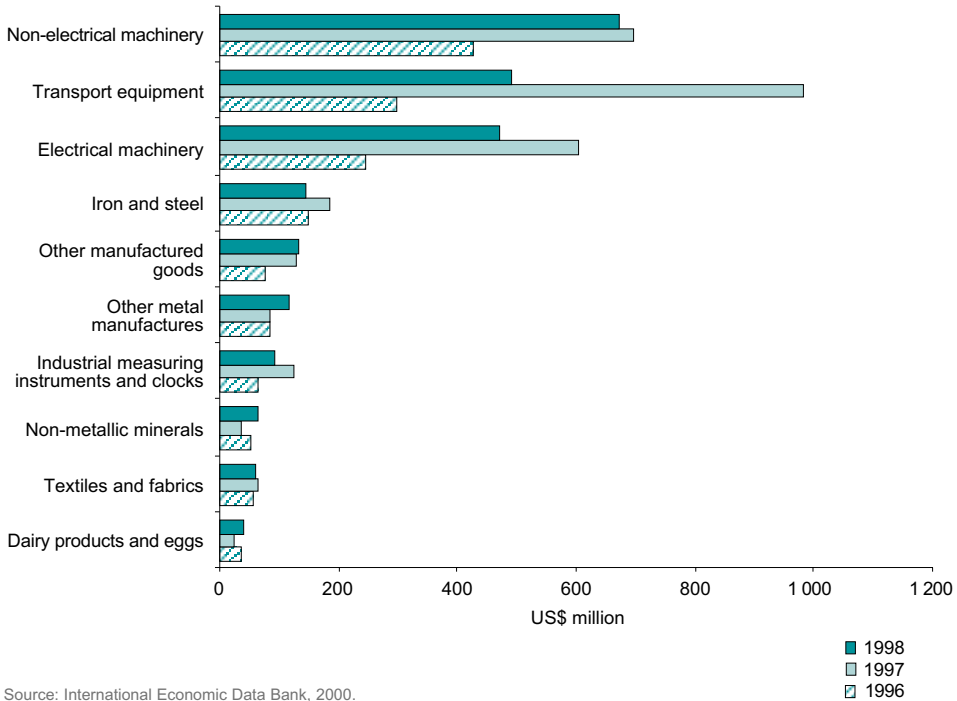
## Oman

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.

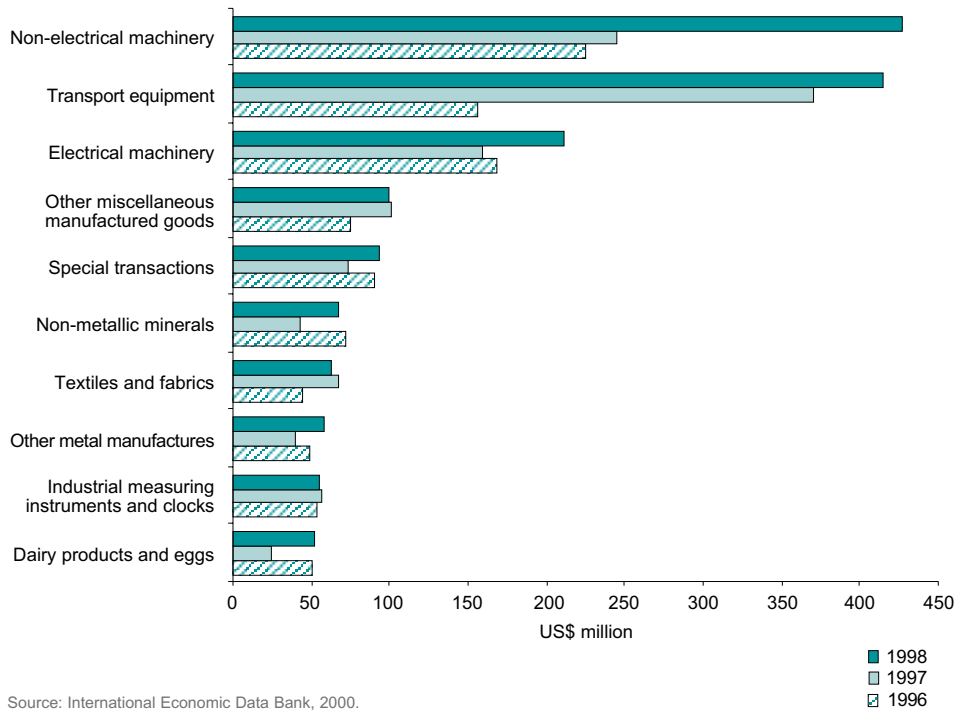
**Qatar**

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



## Bahrain

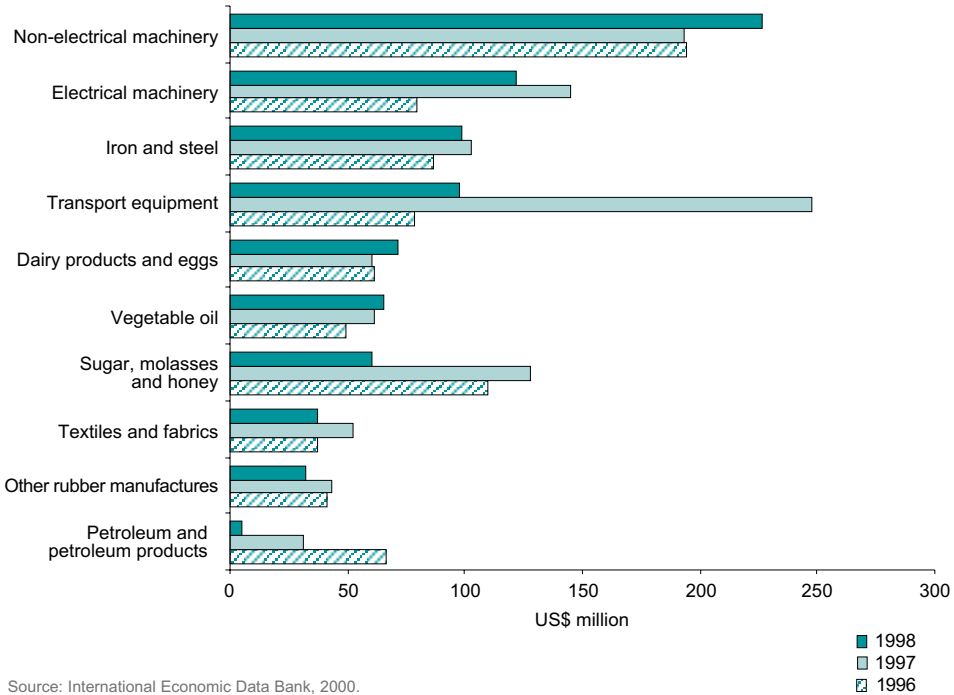
Between 1993 and 1998, Bahrain's imports grew very slowly, under 2 per cent per year, due to dwindling oil reserves, and slower growth associated with growing competition from Dubai in the services and banking field. Imports, mainly of electrical and non-electrical machinery and transport equipment, 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**

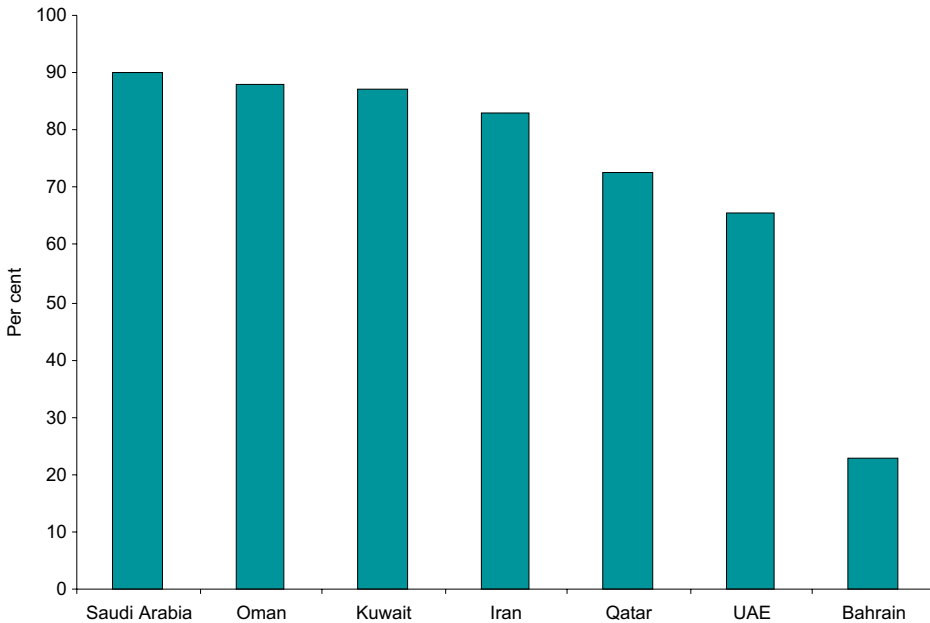


Source: International Economic Data Bank, 2000.

**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**

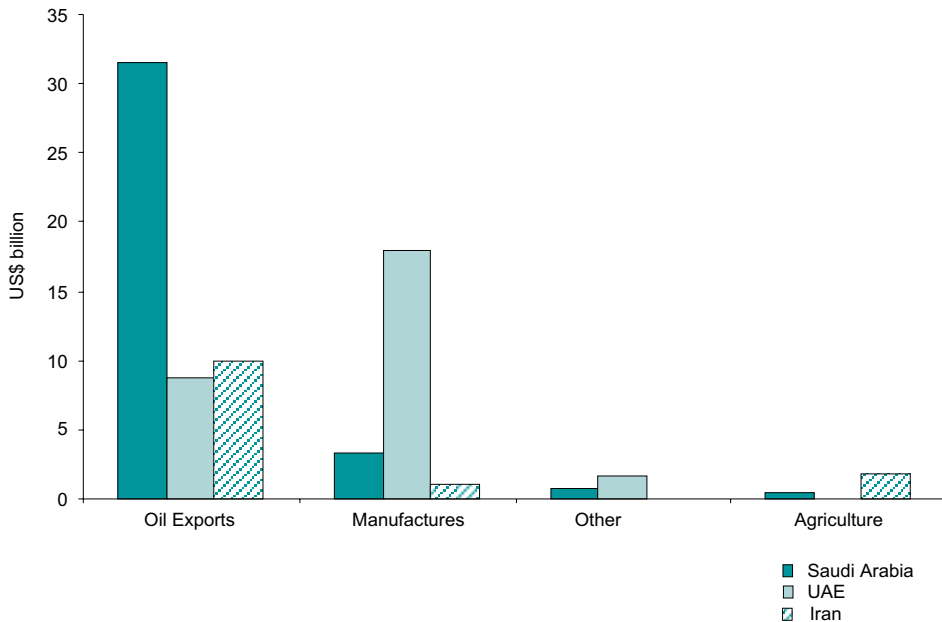
While oil is the region's dominant export, oil dependence is highest in Kuwait, Saudi Arabia and Iran (Figures 5.14 and 5.15).<sup>4</sup> Lower Bahraini oil export dependence reflects relatively modest oil production and significant aluminum and petrochemical exports while for the UAE, lower oil dependence 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).

<sup>4</sup> 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).<sup>5</sup> 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.

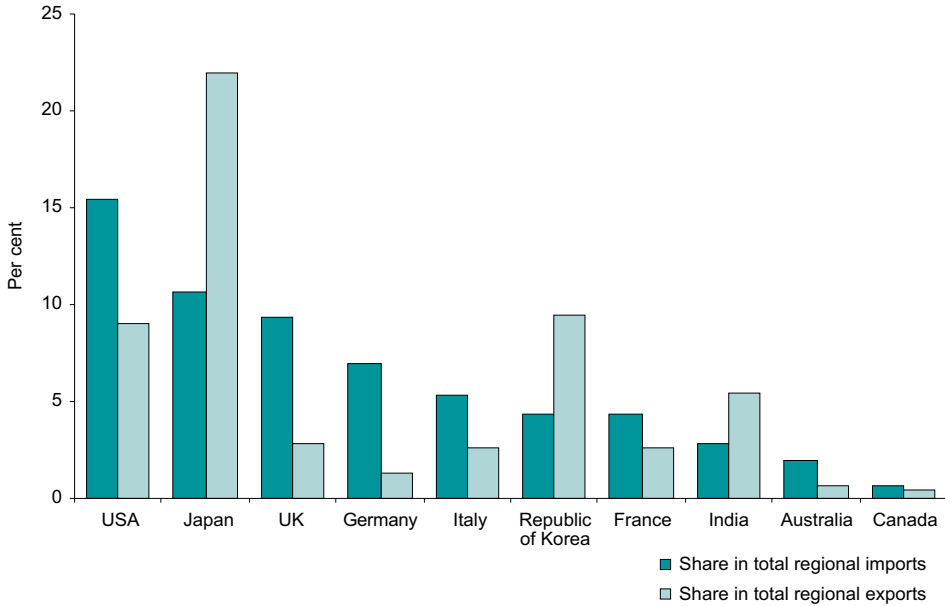
<sup>5</sup> Asia is a major target market for these exports because of strong expected growth in demand.



Figure 5.16

### United States and Japan the Gulf's Main Trading Partners

Country Shares of Gulf Economies' Exports and Imports, Per cent, 1998

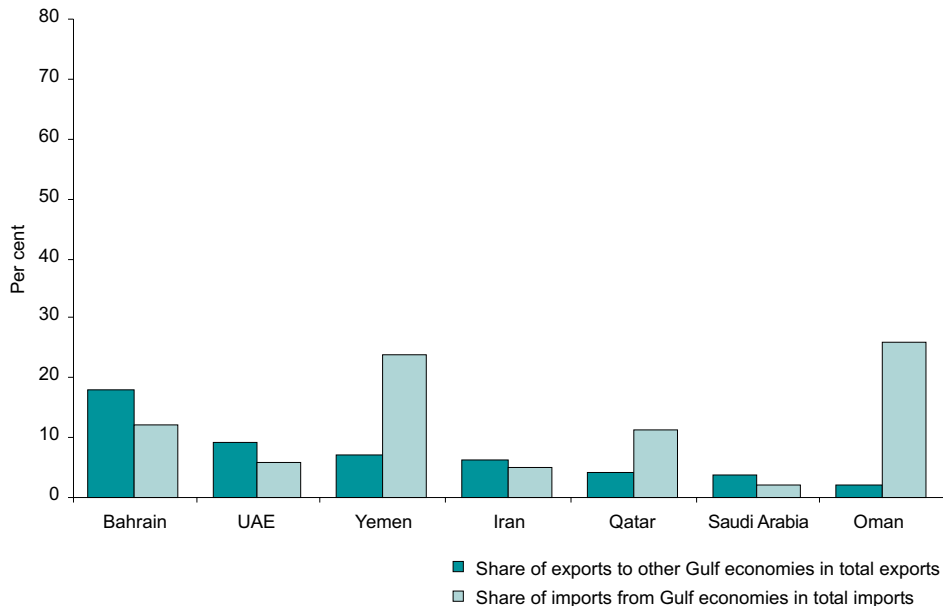


Note: The Gulf economies are Iran, Saudi Arabia, the UAE, Oman, Bahrain, Qatar, Kuwait and Yemen. These statistics refer to goods trade only.  
Source: International Monetary Fund, 1999.

## 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).<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup>

<sup>6</sup> Intra-regional trade is defined as trade between the economies detailed in this report.

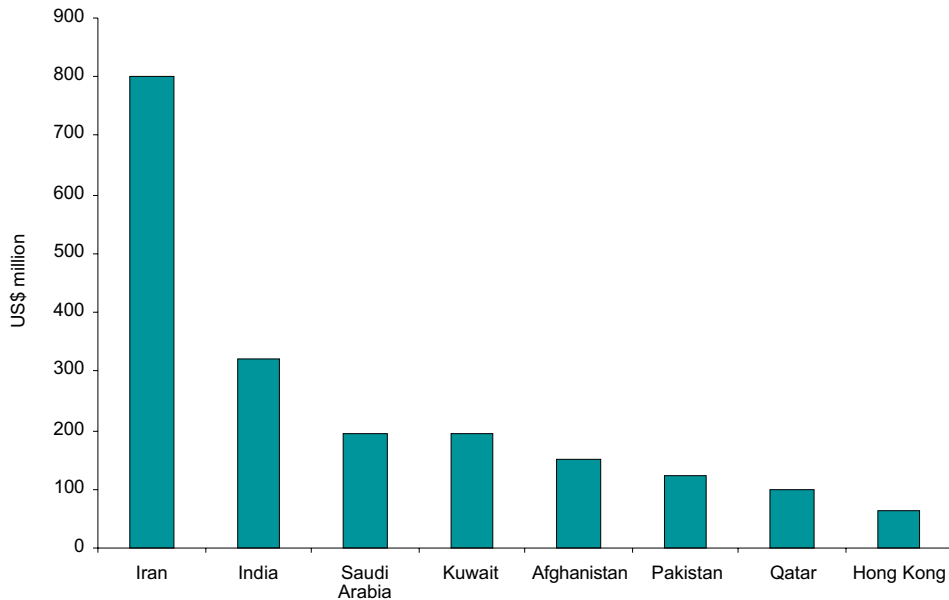
<sup>7</sup> In addition, Bahrain receives significant Saudi crude oil imports for refining and re-export, and Dubai imports gas from Oman for power generation.

<sup>8</sup> 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).<sup>9</sup> 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).<sup>10</sup>

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

<sup>9</sup> For agricultural imports, the percentage of re-exports is even higher at around 60 to 70 per cent (Canadian Business Development International, 1997).

<sup>10</sup> 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 transshipments 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.<sup>11</sup> 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

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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.<sup>12</sup> 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.

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<sup>11</sup> Other significant ports in the UAE include Khor Fakkan and Mina Khalid in Sharjah, Fujairah port in Fujairah and Mina Zayed in Abu Dhabi.

<sup>12</sup> 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.<sup>13</sup> 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.

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<sup>13</sup> 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

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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).<sup>14</sup> 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)

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<sup>14</sup> 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.<sup>15</sup> '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.<sup>16</sup> 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.<sup>17</sup> 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).

<sup>15</sup> 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).

<sup>16</sup> 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.

<sup>17</sup> 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

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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**

<b>Economy</b>	<b>Import distribution requirements</b>
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**

<b>Economy</b>	<b>Government procurement requirements</b>
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.

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