

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 inquiries. 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.