

Growth in the Gulf States

Regional overview

- 2.1 Australia's economic relations with the Gulf States are very positive at the time of reporting.¹ The Gulf States have long been a major destination for Australian commodity and basic food exports such as wheat, barley, live sheep, dairy products, rice, gold and alumina. The region is now also the largest export market for Australian manufactured motor vehicles.²
- 2.2 Although there is considerable variation between the countries of the region, the Department of Foreign Affairs and Trade (DFAT) believes they share many common characteristics that have implications for trade and investment. All Gulf states have young, fast-growing populations and are increasingly seeking ways to liberalise their economies.³ A key focus of economic policy in the Gulf is diversification away from reliance on oil revenues, and a focus on a range of industries including agriculture, downstream hydrocarbon products, metal manufacturing, ship-building, construction materials and services such as transport, finance, education, health, and communications and information technology.⁴

1 DFAT, *Submission No 9*, p 5.

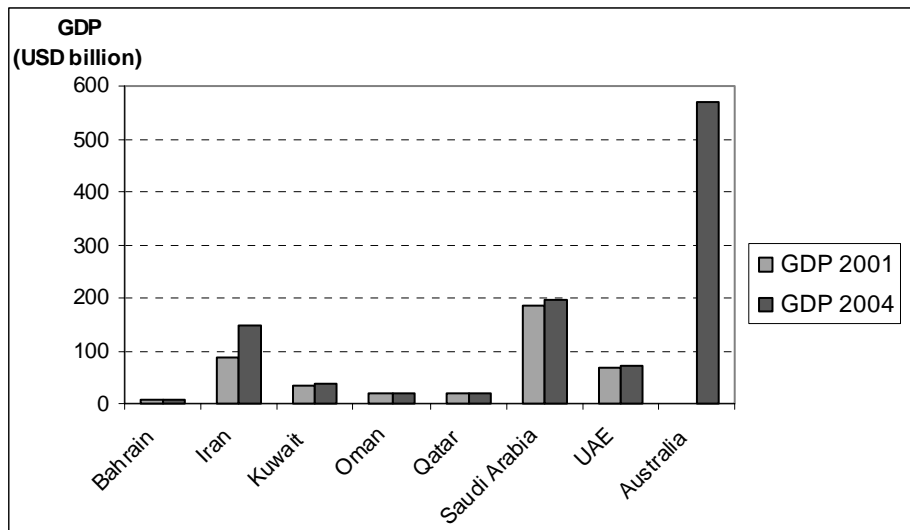
2 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

3 DFAT, *Submission No 9*, p 5.

4 DFAT, *Submission No 9*, p 5.

- 2.3 Over one-third of the Gulf region's population is under the age of 14 (see Table 4.1), and the creation of future employment opportunities is a priority.⁵
- 2.4 Rapid population growth and economic restructuring mean the Gulf countries have a high demand for infrastructure development. DFAT explains that many Gulf countries are increasingly seeking to satisfy the demand for public utility infrastructure through greater private sector involvement (including privatisation and mechanisms such as build-operate-transfer schemes).⁶
- 2.5 The market for sophisticated technologies is growing across the region, reflecting increasing regional wealth, more cosmopolitan consumer preferences and the changing expectations of the region's youthful population.⁷
- 2.6 Relative unfamiliarity with Australian capabilities in sophisticated manufactures and services by regional consumers, and unfamiliarity with the opportunities the region offers on the part of many Australian businesses, are impediments to closer economic engagement.⁸

Graph 2.1 Gulf States (and Australia's) GDP



Source DFAT website, <<http://www.dfat.gov.au/geol/#A>>

5 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

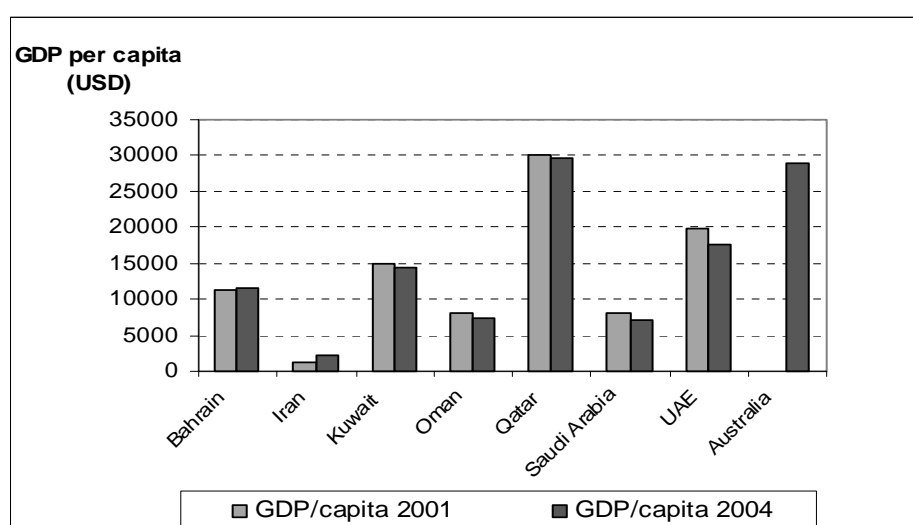
6 DFAT, *Submission No 9*, p 5.

7 DFAT, *Submission No 9*, p 5.

8 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

- 2.7 There are, however, excellent prospects for further increasing Australia's trade with the Gulf region. Australia's proximity to the Gulf – relative to many major commodity exporters – gives it a competitive edge for the sale of bulk rural and non-rural commodities.⁹
- 2.8 In addition, Australian capabilities in fields such as infrastructure development, high-technology manufacturing, the supply of industrial materials and the provision of sophisticated services place it in a good position to meet a wide range of regional requirements.¹⁰

Graph 2.2 Gulf States (and Australia's) GDP per capita



Source DFAT website, <<http://www.dfat.gov.au/geol/#A>>

- 2.9 Australia is becoming increasingly visible as a tourist and investment destination, especially through the growing air links with the Gulf.¹¹ Recent improvements in transport links – for example, the introduction of direct flights from the east and west coasts of Australia to the regional transport hub of Dubai – have improved access to the region for both exporters and investors.¹²
- 2.10 Australian involvement in an increasingly diverse range of business activities in the Gulf countries, from education operations to large-scale building construction, is raising its profile in many fields for

9 DFAT, *Submission No 9*, p 6.

10 DFAT, *Submission No 9*, p 6

11 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

12 DFAT, *Submission No 9*, p 6

which Australia was not previously well known in the region.¹³ Multiplex is a good example.¹⁴

- 2.11 DFAT believes the challenge for Australian business and for the government is to build on existing successes in order to capture more of the substantial market opportunities that the region offers.¹⁵ In order to do this, according to DFAT, Australia should further broaden and deepen its ties with the region beyond the transactional trade which has characterised its commercial relations with the region in the past.¹⁶

Table 2.1 Recent and forecast growth (% change per annum)

	1998 ^a	1999 ^a	2000 ^a	2001 ^a	2002 ^a	2003 ^b	2004 ^b	2005 ^b
Bahrain	4.8	4.3	5.3	4.6	5.1	4.0	5.4	-
Iran	3.8	2.0	5.3	5.8	7.6	6.2	4.2	3.9
Kuwait	3.2	-1.6	3.9	-1.0	-2.0	4.8	0.9	1.1
Oman	2.7	-0.2	5.5	9.3	2.0	1.1	1.2	1.9
Qatar	-	5.3	11.6	7.2	4.6	7.1	5.5	7.0
Saudi Arabia	2.8	-0.8	4.9	1.2	0.7	6.4	0.3	1.6
UAE	1.4	4.4	12.3	3.5	1.8	6.0	4.3	4.9
Average	3.1	1.9	7.0	4.4	2.8	5.1	3.1	3.4

Source ^a DFAT country factsheets, ^b EIU 2004-05 Forecast summary

Gulf States trade profile

- 2.12 The Gulf States are highly trade-exposed.¹⁷ Their total exports of goods and services accounted for about 60 per cent of their combined GDP in 2003.¹⁸ However, reflecting their generally high trade surpluses, the ratio of imports to GDP is somewhat lower (about 43 per cent in 2003) than the exports to GDP ratio.¹⁹
- 2.13 The Gulf States' total exports of goods and services are estimated at USD 217 billion in 2003. Their combined imports of goods and

13 DFAT, *Submission No 9*, p 6

14 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

15 DFAT, *Submission No 9*, p 6.

16 DFAT, *Submission No 9*, p 6.

17 DFAT, *Submission No 9*, p 6.

18 EIU, Quoted in DFAT, *Submission No 9*, p 6.

19 DFAT, *Submission No 9*, p 6.

services are estimated at USD 158 billion in 2003.²⁰ In comparison, Australia's exports and imports of goods and services are estimated at USD 92 billion and USD 107 billion respectively in 2003.²¹

- 2.14 Petroleum, petroleum related products and gas dominate the region's export trade. These products account for over 80 per cent of the exports of Kuwait and Saudi Arabia, and between 50 and 80 per cent of the exports of Bahrain, Iran, Oman and Qatar.²² The UAE has the region's most diversified export profile, largely as a result of its network of free zones. Nevertheless, petroleum, petroleum products and gas accounted for around almost half of the UAE's exports (excluding re-exports) in 2002.²³
- 2.15 Imports to the region are diversified. The small size of domestic agricultural sectors in the Gulf countries means that demand for imported food products is high.²⁴ The region is already a major market for Australian exports of livestock, meat, dairy produce and grains. The region's narrow manufacturing base means a large demand for imports of consumer goods, industrial supplies and machinery. Military and other government purchases are also priorities for a number of countries in the region.²⁵
- 2.16 European countries were the most significant import suppliers to the Gulf countries in 2002. Germany was the leading supplier, with France, Italy and the United Kingdom also appearing among the top six suppliers. The United States and Japan were the major non-European import suppliers to the region in 2002.²⁶
- 2.17 Intra-regional trade is relatively modest. DFAT believes that the implementation, from 1 January 2003, of the Gulf Cooperation Council (GCC) customs union (Appendix C) should increase trade among the six GCC members (Bahrain, Oman, Saudi Arabia, Kuwait, Qatar and the UAE).²⁷ Given that all GCC members are dependent to some extent on hydrocarbon exports, the GCC economies have only

20 DFAT, *Submission No 9*, p 6.

21 DFAT, *Submission No 9*, p 6.

22 DFAT, *Submission No 9*, p 6.

23 DFAT, *Submission No 9*, p 6.

24 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

25 Austrade, *Submission No 8*, p 18.

26 DFAT, *Submission No 9*, p 7.

27 DFAT, *Submission No 9*, p 7.

modest complementarity. In DFAT's opinion this will tend to limit the extent of intra-GCC trade.²⁸

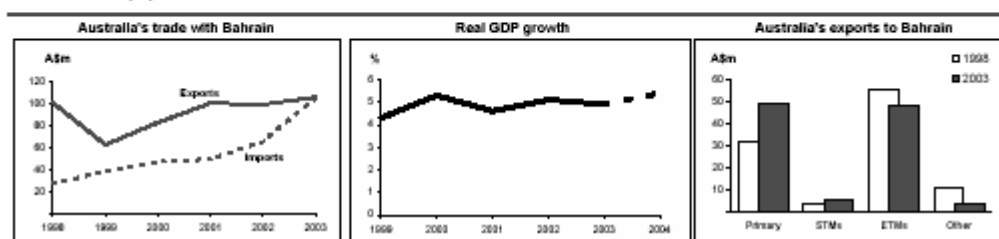
28 DFAT, *Submission No 9*, p 7.

Economies of the Gulf States

Bahrain

Recent economic indicators:

	1999	2000	2001	2002	2003(a)	2004(b)
GDP (US\$bn):	6.8	8.5	7.9	7.7	8.2	8.2
GDP per capita (US\$):	9,775	12,092	11,335	10,975	11,730	11,698
Real GDP growth (% change YOY):	4.3	5.3	4.6	5.1	4.9	5.4
Current account balance (US\$m):	-37	782	147	-516	-264	-965
Current account balance (% GDP):	-0.5	9.2	1.9	-6.7	-3.2	-11.8
Goods & services exports (% GDP):	74.7	83.0	80.7	81.1	85.2	75.2
Inflation (% change YOY):	-1.3	-0.7	-1.2	-0.5	-0.2	0.7
Labour force (m):	0.3	0.3	0.3	0.3	0.4	0.4



Major Australian exports	2003 (AUD m)	Major Australian imports	2003 (AUD m)
Passenger motor vehicles	34	Fertilizers (excl. crude)	60
Live animals	29	Aluminium	39
Cheese and curd	6	Wire products	3
Inorganic chemical elements	5	Textile yarn	3
Ships, boats & floating structures	3	Aircraft & parts	1

Source DFAT Country Factsheets, <<http://www.dfat.gov.au/geo/#A>>

Economic overview

- 2.18 With Oman, it is the only other 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. Bahrain has a well respected central bank and transparent legal institutions.²⁹
- 2.19 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.³⁰

29 DFAT, *Assessing Middle East Growth*, Country Summaries.

30 DFAT, *Assessing Middle East Growth*, Country Summaries.

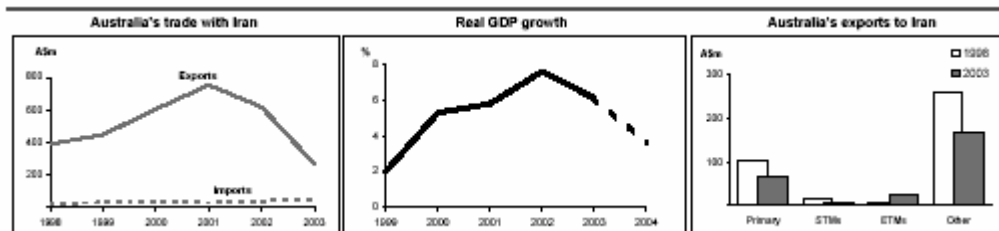
- 2.20 Petroleum production and refining account for about 60% of export receipts, 60% of government revenues, and 30% of GDP. With its highly developed communication and transport facilities, Bahrain is home to numerous multinational firms with business in the Gulf. Bahrain is dependent on Saudi Arabia for oil granted as aid. A large share of exports consists of petroleum products made from refining imported crude.
- 2.21 Unemployment, especially among the young, and the depletion of oil and underground water resources are major long-term economic problems.³¹

31 *CIA World Factbook*, <<http://www.cia.gov/cia/publications/factbook/index.html>> (14 July 2004)

Islamic Republic of Iran

Recent economic indicators:

	1999	2000	2001	2002	2003(a)	2004(b)
GDP (US\$bn):	55.2	71.9	85.5	114.8	128.3	148.1
GDP per capita (US\$):	841	1,082	1,272	1,686	1,857	2,112
Real GDP growth (% change YOY):	2.0	5.3	5.8	7.6	6.1	3.6
Current account balance (US\$m):	6,589	12,645	5,985	3,731	3,871	-3,172
Current account balance (% GDP):	11.9	17.6	7.0	3.3	3.0	-2.1
Goods & services exports (% GDP):	21.3	17.8	14.4	15.0	16.2	10.9
Inflation (% change YOY):	20.1	14.5	11.3	14.3	16.9	15.7
Unemployment rate (%):	13.0	14.0	13.0	13.5	13.5	14.0



Major Australian exports	2003 (AUD m)	Major Australian imports	2003 (AUD m)
Coal	45	Crude petroleum	25
Wool	10	Fruit & nuts, fresh or dried	13
Animal oils & fats	10	Floor coverings	6
Food processing machines	7	Alcohols, phenols, phenol-alcohols	3
Measuring & controlling instruments	3	Nitrogen-function compounds	2

Source DFAT Country Factsheets, <<http://www.dfat.gov.au/geol/#A>>

Economic overview

- 2.22 With a large and fast growing population (65.5 million in 2002) the world's fourth largest conventional oil reserves and the world's second largest gas reserves, DFAT argues Iran is a significant regional economy.³²
- 2.23 The economy is heavily dependent on hydrocarbon exports and economic growth is strongly influenced by oil market developments. Oil sales account for more than a third of the government's total income. A key goal of Iranian economic policy over the last 20 years or so has been diversification of the economy away from dependence on oil.³³
- 2.24 Large state-owned enterprises dominate key industries sectors, and quasi-government enterprises controlled by charitable religious

32 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

33 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

foundations also account for a large share of GDP.³⁴ The private sector is generally confined to small and medium enterprises although a wider privatisation program, for example in the power sector, is underway.³⁵

- 2.25 In recent years economic growth has not kept pace with labour force growth, leading to an unemployment rate which, on unofficial estimates, exceeds 30% (the official estimate is 16%).³⁶ Increasing the economy's growth rate in order to reduce unemployment is a high priority but, to date, economic reform has proceeded at only a modest pace.³⁷

Trade

- 2.26 DFAT explains that Iran has traditionally been one of Australia's leading wheat export destinations, and has also attracted interest from a range of Australian exporters and investors.³⁸ Other Australian agricultural exports to Iran include barley, animal oils and fats, meat and butter. Coking coal is Australia's major non-agricultural export to Iran. Australian expertise in agriculture, mining and civil engineering has wide application in Iran.³⁹
- 2.27 Australia's exports to Iran fell by 57% to AUD263 million in 2003 largely as a result of a drought related fall in wheat exports and the impact of a stronger Australian dollar. Australia's imports from Iran rose 29 percent to AUD 53million in 2003. Pistachios and carpets have traditionally dominated Australia's imports from Iran. Technical factors have long limited Australia's ability to import Iranian crude oil, but a modest quantity of Iranian crude oil was imported in 2003.⁴⁰
- 2.28 A series of joint ministerial commissions (JMCs) has helped to expand trade and investment ties. The Minister for Trade led a delegation of 54 business representatives to Tehran in September 2002 for the 9th meeting of the Australia-Iran JMC. Australia and Iran are negotiating a bilateral investment promotion and protection agreement to

34 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

35 Parliamentary Delegation to the Gulf States, *Meeting notes*.

36 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

37 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

38 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

39 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

40 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

facilitate two-way investment.⁴¹ The visit report supported this course of action.

41 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

Kuwait

Recent economic indicators:

	1999	2000	2001	2002	2003(a)	2004(b)
GDP (US\$bn):	29.2	37.0	34.2	35.3	41.6	37.7
GDP per capita (US\$):	12,913	16,677	14,816	14,601	16,571	14,501
Real GDP growth (% change YOY):	-1.6	3.9	-1.0	-1.0	4.6	0.7
Current account balance (US\$m):	5,011	14,672	8,325	4,135	8,340	2,244
Current account balance (% GDP):	17.2	39.6	24.3	11.7	20.1	6.0
Goods & services exports (% GDP):	47.4	57.5	52.3	48.2	57.9	49.4
Inflation (% change YOY):	3.0	1.9	1.6	1.3	1.2	1.7
Unemployment rate (%):	n.a.	n.a.	n.a.	n.a.	1.0	1.0



Major Australian exports	2003 (AUD m)	Major Australian imports	2003 (AUD m)
Passenger motor vehicles	291	Crude petroleum	15
Live animals	109	Fertilizers (excl. crude)	2
Bovine meat	17		
Cheese and curd	16		
Milk and cream	11		

**Includes \$120 of confidential items, 87% of total imports*

Source DFAT Country Factsheets <<http://www.dfat.gov.au/geo/#A>>

Economic overview

- 2.29 Kuwait's economic significance derives from having over 9% of the world's conventional oil reserves, the fourth largest behind Saudi Arabia, Iraq and the United Arab Emirates.⁴²
- 2.30 Kuwait's non-oil economy suffers from a low-growth, low diversification economic path. More than 75% of GDP is generated by the state sector, and even in Kuwait's non-oil economy, the public sector accounts for 45% of activity.⁴³
- 2.31 Over 90% of Kuwaitis work for the public sector, and hidden unemployment is high. Kuwait's government has developed a new five-year plan, which is expected to lay considerable emphasis on the private sector to achieve an economic growth target of 2.1%.⁴⁴ Over

42 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

43 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

44 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

the last five years, Kuwait's real GDP grew at an average of only 0.5% per annum.

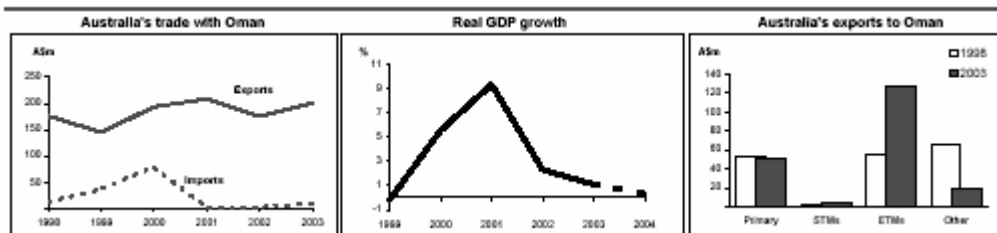
- 2.32 The EIU estimates real GDP growth of 4.2% in 2003, easing to around 1% in 2004 and 2005.⁴⁵

45 DFAT, *Country Briefs*, <http://www.dfat.gov.au/geo/iran/iran_country_brief.html>

Oman

Recent economic indicators:

	1999	2000	2001	2002	2003(a)	2004(b)
GDP (US\$bn):	15.7	19.9	19.9	20.3	21.1	19.7
GDP per capita (US\$):	6,744	8,271	8,048	7,997	8,085	7,334
Real GDP growth (% change YOY):	-0.2	5.5	9.3	2.3	1.1	0.3
Current account balance (US\$m):	-291	3,423	2,314	1,948	2,261	257
Current account balance (% GDP):	-1.9	17.2	11.6	9.6	10.7	1.3
Goods & services exports (% GDP):	48.6	59.1	57.3	56.0	55.5	50.8
Inflation (% change YOY):	0.4	-1.1	-1.0	-0.7	-0.4	0.2
Unemployment rate (%):	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



Major Australian exports	2003 (AUD m)	Major Australian imports	2003 (AUD m)
Passenger motor vehicles	112	Copper	7
Live animals	19	Construction materials	1
Milk and cream	17	Cereal preparations	1
Copper	7		
Meat (excl. bovine)	5		

Source DFAT Country Factsheets <<http://www.dfat.gov.au/geol/#A>>

Economic overview

- 2.33 As in most Gulf countries, hydrocarbons form the most important sector of the Omani economy, with crude oil accounting for over 30% of GDP in real terms since 1980.⁴⁶
- 2.34 However, in contrast to neighbouring states such as Saudi Arabia and the UAE, Oman's oil resources are relatively limited and difficult to extract. Indeed, problems within the complex fields have seen production fall sharply since 2001, with further declines anticipated in 2004 and 2005.⁴⁷
- 2.35 The EIU explains these problems have added additional urgency to Oman's long-standing drive to diversify the economy away from its reliance on oil exports.⁴⁸ In the 1980s the government of Oman

46 EIU, *Country profile*.

47 EIU, *Country profile*.

48 EIU, *Country profile*.

emphasised the development of non-oil manufactured exports, with much of this activity centred on an industrial area on the outskirts of the capital. Natural gas was discovered in large quantities in the late 1980s and early 1990s, and diversification plans now focus on this resource both as a direct export (Oman has a growing liquefied natural gas (LNG) capacity) and as a fuel and feedstock for other industrial ventures.⁴⁹

- 2.36 Before oil was discovered, agriculture was the mainstay of the economy and the sector still plays an important role in employment. However, its contribution to GDP is small, and water-resource problems place the future of this sector in doubt. Agricultural activity is centred along the Batinah coast in northern Oman and in the south around Salalah.⁵⁰
- 2.37 In 1994 DFAT explains, 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. Further, it is developing a strong regulatory framework in the electricity sector, allowing competition between generators.⁵¹

49 EIU, *Country profile*.

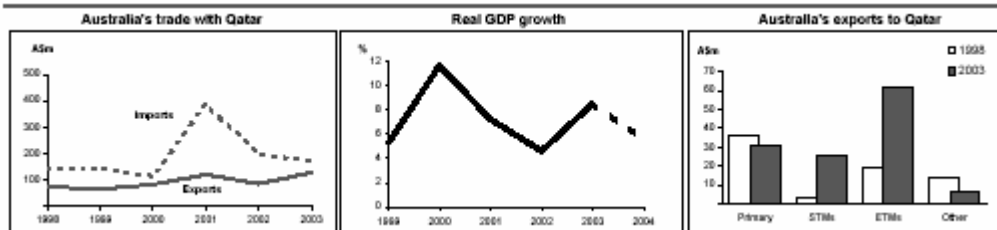
50 EIU, *Country profile*.

51 DFAT, *Assessing Middle East Growth*, Country Summaries.

Qatar

Recent economic indicators:

	1999	2000	2001	2002	2003(a)	2004(b)
GDP (US\$bn):	12.4	17.8	17.7	17.9	19.6	18.9
GDP per capita (US\$):	21,742	30,621	30,070	29,802	31,544	29,496
Real GDP growth (% change YOY):	5.3	11.6	7.2	4.6	8.5	5.5
Current account balance (US\$m):	2,171	4,576	4,152	3,203	3,050	1,336
Current account balance (% GDP):	17.5	25.8	23.4	17.9	15.6	7.1
Goods & services exports (% GDP):	59.8	71.9	68.0	68.5	70.6	68.1
Inflation (% change YOY):	2.1	1.7	1.4	1.0	1.0	2.2
Labour force (m):	0.1	0.1	0.1	0.1	0.1	0.1



Major Australian exports	2003 (AUD m)	Major Australian imports	2003 (AUD m)
Passenger motor vehicles	53	Fertilizers (excl. crude)	26
Pig iron	26	Crude petroleum	24
Live animals	13	Polymers of ethylene	8
Meat (excl. bovine)	8		
Bovine meat	3	<i>*Includes \$110 million of confidential items, 66% of total imports</i>	

Source DFAT Country Factsheets <<http://www.dfat.gov.au/geo/#A>>

Economic overview

2.38 Qatar is the smallest Gulf country. 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 according to DFAT, with the LNG sector's share in GDP projected to rise from 8 per cent in 1998 to 18 percent in 2003.⁵²

2.39 In nominal terms, the growth rate of the Qatari economy has fluctuated dramatically over the past several years, reflecting the country's vulnerability to oil price fluctuations. Despite diversification efforts, the economy remains heavily dependent on oil (and gas). In 1975, after the quadrupling of oil prices had fed through

52 DFAT, *Accessing Middle East Growth*, <<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

into the economy, oil accounted for 71.9% of GDP. Falling oil prices in the late 1990s resulted in the oil and gas sector's share falling below 50%, but it rose again in the following three years, as oil prices rose and gas output increased.⁵³

2.40 In 2002 the contribution of the oil and gas sector to nominal GDP reached 60%. However, figures for the oil sector's direct contribution to GDP show only part of the picture, as government spending of oil revenue on infrastructure projects and civil service salaries determines the buoyancy of the small, local economy.⁵⁴ Qatar's oil is produced from seven offshore fields and one onshore field.⁵⁵

2.41 DFAT believes the importance of natural gas to the Qatari economy has been rising. Qatar has the world's third largest gas reserves, after Russia and Iran. In energy terms, these reserves are equivalent to over 150 billion barrels of oil and are expected to last more than 300 years at the current and anticipated rate of production. Crude oil is only expected to last around 20 years. Gas has become an increasingly important source of export revenue, and has also provided the fuel or feedstock for a string of petrochemicals projects.⁵⁶

53 DFAT, *Accessing Middle East Growth*,
<<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

54 DFAT, *Accessing Middle East Growth*,
<<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

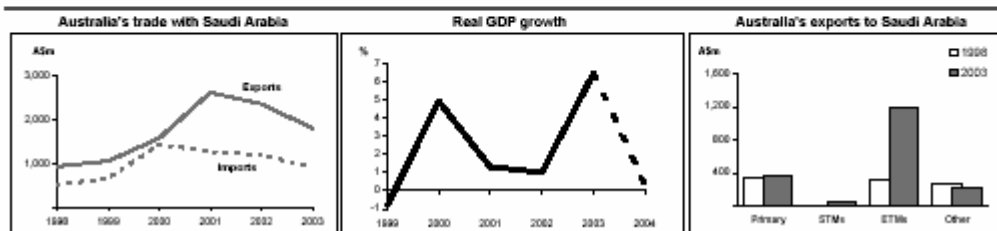
55 DFAT, *Accessing Middle East Growth*,
<<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

56 DFAT, *Accessing Middle East Growth*,
<<http://www.dfat.gov.au/publications/megrowth/index.html>> (8 July 2004)

Saudi Arabia

Recent economic indicators:

	1999	2000	2001	2002	2003(a)	2004(b)
GDP (US\$bn):	161.2	188.7	183.3	188.5	211.6	197.5
GDP per capita (US\$):	7,496	8,500	8,038	8,020	8,742	7,901
Real GDP growth (% change YOY):	-0.8	4.9	1.3	1.0	6.4	0.5
Current account balance (US\$m):	411	14,335	9,366	11,696	24,871	5,179
Current account balance (% GDP):	0.3	7.6	5.1	6.2	11.8	2.6
Goods & services exports (% GDP):	29.8	34.8	43.6	39.9	43.4	36.5
Inflation (% change YOY):	-1.3	-1.2	-1.1	0.3	0.5	0.2
Unemployment rate (%):	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



Major Australian exports	2003 (AUD m)	Major Australian imports	2003 (AUD m)
Passenger motor vehicles	1097	Crude petroleum	26
Live animals	114	Refined petroleum	169
Meat (excl. bovine)	82	Fertilizers (excl. crude)	89
Cheese and curd	80	Liquefied propane & butane	72
Zinc	30	Woven synthetic fabrics	11

Source DFAT Country Factsheets <<http://www.dfat.gov.au/geo/#A>>

Economic overview

2.42 With a population of almost 22 million, and over 25 percent of the world's conventional oil reserves, Saudi Arabia is the Gulf region's largest economy (see Graphs 2.1 and 2.2). In 2002 it had a GDP equivalent of about AUD 132 billion. Although efforts have been made to diversify Saudi Arabia's economy, it remains heavily dependent on the oil sector and will continue to be so for the foreseeable future.⁵⁷ Private non-oil sector contribution to GDP has increased over the past decade, but oil and oil derivatives still account for 90-95% of Saudi export earnings, 75% of budget revenues and about 30-35% of GDP.⁵⁸

2.43 DFAT explains that during the past three years, under the leadership of Crown Prince Abdullah, the Saudi government has initiated structural reforms measures designed to encourage privatisation,

57 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

58 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

liberalise foreign trade and reform investment regimes. Commercial law has been amended and initial steps have been taken to free up foreign investment and privatise parts of the dominant state sector. Saudi Arabia is also in the process of acceding to the World Trade Organisation (WTO).⁵⁹

- 2.44 On 1 January 2003 the GCC member states implemented a customs union. A 5% duty is imposed on most imports. Some 417 tariff lines (mainly food, animals and medicines) attract a zero duty rate. Member states may each also nominate a list of 'protected commodities' on which they can charge duty rates of 12 or 20%. Saudi Arabia has listed 839 protected commodities.⁶⁰

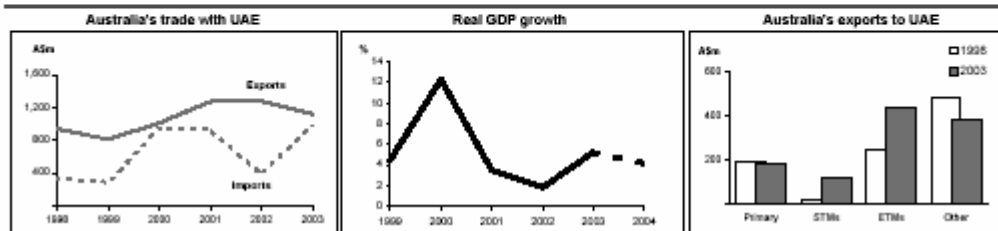
59 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

60 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

United Arab Emirates

Recent economic indicators:

	1999	2000	2001	2002	2003(a)	2004(b)
GDP (US\$bn):	54.9	70.2	69.2	71.0	78.4	73.7
GDP per capita (US\$):	19,624	21,952	19,779	18,677	19,593	17,547
Real GDP growth (% change YOY):	4.4	12.3	3.5	1.8	5.2	4.1
Current account balance (US\$m):	3,487	13,752	9,948	8,440	12,365	5,206
Current account balance (% GDP):	6.3	19.6	14.4	11.9	15.8	7.1
Goods & services exports (% GDP):	70.2	74.0	73.9	73.5	76.2	74.8
Inflation (% change YOY):	2.1	1.3	2.7	2.9	3.2	3.0
Unemployment rate (%):	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



Major Australian exports	2003 (AUD m)	Major Australian imports	2003 (AUD m)
Passenger motor vehicles	247	Crude petroleum	876
Zinc	98	Liquefied propane & butane	13
Meat (excl. bovine)	49	Iron, steel & aluminium structures	12
Live animals	25	Jewellery	10
Motor vehicle parts	16	Glassware	9

*Includes \$360 million of confidential items, 32% of total exports

Source DFAT Country Factsheets, <<http://www.dfat.gov.au/geo/#A>>

Economic overview

2.45 The UAE has the world's third largest conventional oil reserves and fifth largest natural gas reserves and is a major player in world energy markets. It is the Middle East's third largest economy, with GDP equivalent to around AUD 130 billion in 2002, and has one of the world's highest per capita incomes (equivalent to about AUD 35,000 in 2002).⁶¹ Its population was estimated at 3.5 million in 2002, with about 80 per cent being expatriate (predominantly South Asian).⁶²

2.46 The UAE economy has proved reasonably resilient to periodic weakness in global oil demand due to continuing economic diversification efforts and extensive offshore financial investments. Over the past five years, the UAE economy recorded average real

61 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

62 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

GDP growth of about 5 per cent per annum, despite a sharp slowdown in 2002.⁶³

- 2.47 In the medium term, the UAE economy will continue to rely on its huge oil and gas reserves. This dependence on crude oil - which accounted for 28% of GDP in 2002, 39% of exports in 2001 and the bulk of government revenue - will see it remain exposed to fluctuations in the global oil market.⁶⁴
- 2.48 With only modest oil reserves, Dubai Emirate has undertaken a range of diversification efforts to establish itself as a tourism, ICT, re-export and financial hub. Taking full advantage of its position near the head of the Gulf, it has become the key regional entrepot.⁶⁵ Dubai has developed prestige hotels, massive port facilities and a range of free trade zones to attract both manufacturing and services industries (See Chapters 4 and 5 for examples).⁶⁶
- 2.49 The UAE maintains a relatively open trade system. In contrast to other GCC members, the UAE imposes few, if any, tariffs.⁶⁷ In general, foreign companies are limited to 49 per cent ownership, except in the free trade zones where 100 per cent ownership is possible.⁶⁸

63 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

64 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

65 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

66 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

67 Parliamentary Delegation to the Gulf States, *Meeting Notes*.

68 DFAT, *Country Brief*, <<http://www.dfat.gov.au/geo/#A>>

