

Trade and investment issues in the Gulf States

Drivers of growth and development in the region

- 2.1 Upon arrival in the region one is immediately struck by a range of impressions which provide some insight into the economies of the region.
- 2.2 The strongest impression is of the extraordinary level of construction. Dubai, for example, is a construction site of breathtaking proportions. Subsequent impressions might include the large number of luxury cars on the road – many more, it seems, than you would see on Australian roads. One might also notice the large number of expatriate workers in the Gulf countries (as high as 80% of the population in UAE). And Australians would be likely to notice the large number of Australian cars on the roads (Holden Caprices, Toyota Camrys and in lesser numbers Mitsubishi Magnas).
- 2.3 Iran is the exception in some ways particularly in terms of construction. The US boycott on Iran has clearly affected the level of investment into Iran. The committee believes however that Iran still provides significant prospects.
- 2.4 The overall impression is that the Gulf region is a region on the move.

- 2.5 Although the level of construction, vibrancy and wealth differ in degrees across the region, the strong momentum towards development is consistent.
- 2.6 The Gulf is a region on the move for a range of reasons discussed below and the next few years is a good time for Australian businesses to look to the region.

The twin drivers of Gulf States development

- 2.7 The economies of the Gulf States are all on the 'fast track' to growth and development. The world economy and the demographics of the Gulf States have placed the region in a unique position. The so called 'youth bulges' in these countries, large majorities of the population under 30 years of age, have compelled governments to commit to rapid development. Rapid growth and development is the chosen response to the youth employment challenge. Governments in the region hope it will provide jobs for the young and therefore stability – a familiar development strategy. Unlike many other developing countries however, Gulf States also tend to have the financial means to fully fund such rapid development.
- 2.8 The twin driver of rapidly growing young populations and substantial natural wealth is the key to understanding the region. It explains the vigour with which Gulf economies are seeking to diversify and develop their economies and 'fast track' development programs they are pursuing.
- 2.9 Peter Linford, Senior Trade Commissioner in Dubai listed the characteristics of the Gulf economies in the following terms. They are cash rich markets. They are heavily reliant on imported goods. They are on the whole liberal economies with no major limitations. There is generally strong government support for the private sector. There is a positive perception of Australia business. They are large and growing consumer markets and the regional population is large and growing.¹

Window of opportunity

- 2.10 An additional important point made on several occasions to the delegation was the fact that several Gulf countries were trying to

1 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.s

broaden their import base away from traditional suppliers such as the US, UK and Europe, especially in terms of where they study and holiday.

- 2.11 Australia was seen to be well placed to provide the diversity that the Gulf States are currently seeking in their trading and investment relationships. This window of opportunity is open now and may only last for the next few years.

Dubai as regional hub

- 2.12 Another important point about the region is Dubai's growing role as a trading hub for the region.
- 2.13 Dubai has modelled itself on Singapore and accordingly plans to be the regional services hub. Clearly Dubai has been very successful in this regard to date, having developed a range of key services industries such as Internet City, the Knowledge Village, and the Dubai International Financial Centre and Dubailand which are currently under construction.
- 2.14 The committee believes Australian companies looking to the region should be aware of this and utilize the array of facilities, services and links in place in Dubai to develop their activities in the region.

Scale of growth and development in the region

- 2.15 Before discussing the range of specific opportunities for Australia in terms of trade and investment, two economic measures are reproduced below to highlight, in brief, figures on the level of potential in the region.
- 2.16 The first Table 2.1 highlights the dramatic growth in Australian trade with the relevant Gulf States. In many cases Australia's exports have more than doubled over this period as imports have moderately increased. Australia's balance of merchandise trade has nearly doubled over the five year period below.
- 2.17 In terms of growth in the region, it is clear there is a strong growth trend especially in Iran, UAE and Qatar. Concurrent dips in several

countries suggest that growth is to some degree dependent on oil prices.

Table 2.1 Total Australian exports to the Gulf States (AUD 000s)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------------|-----------|-----------|-----------|-----------|-----------|
| Saudi Arabia | 942,154 | 1,063,826 | 1,586,145 | 2,629,319 | 2,371,252 |
| UAE | 935,846 | 809,117 | 1,010,568 | 1,271,495 | 1,277,373 |
| Iran | 388,836 | 446,155 | 604,129 | 752,434 | 614,211 |
| Kuwait | 239,262 | 293,592 | 321,694 | 483,237 | 527,922 |
| Qatar | 71,909 | 63,263 | 80,439 | 118,347 | 84,102 |
| TOTAL | 2,578,007 | 2,675,953 | 3,602,975 | 5,254,832 | 4,874,860 |

Source DFAT – Composition of Australian trade 2002

Table 2.2 Balance of merchandise trade with Australia (AUD 000s)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------------|-----------|-----------|---------|-----------|-----------|
| Saudi Arabia | 418,635 | 404,013 | 136,532 | 1,354,632 | 1,167,044 |
| UAE | 597,475 | 520,745 | 70,275 | 341,333 | 881,176 |
| Iran | 365,969 | 418,486 | 573,639 | 726,046 | 576,392 |
| Kuwait | 151,395 | 216,287 | 161,400 | 361,276 | 368,950 |
| Qatar | -72,569 | -78,860 | -32,728 | -266,614 | -113,646 |
| TOTAL | 1,460,905 | 1,480,671 | 909,118 | 2,516,673 | 2,879,916 |

Source DFAT – Composition of Australian trade 2002

2.18 This growth in combination with the region's strong desire to diversify its import sources are the main reasons the committee is strongly optimistic about Australia's opportunities in the region.

Areas of outstanding opportunity

2.19 Bearing the above factors in mind there is an array of opportunities from which Australia is well placed to take advantage. Over the course of the visit the committee spoke to more than 60 representatives of various industry and government organisations in five countries and found several areas which had substantial potential for Australian involvement.

2.20 The need to accommodate the growing majorities of young people in terms of jobs has focused the minds of policy makers in the Gulf States on the need for economic growth.

2.21 All Gulf governments have therefore pragmatically begun to address this problem broadly, through building and liberalisation programs. Building and liberalisation programs require a range of skills and inputs. Australia, after enjoying a long period of growth based on a long period of liberalising reform, is well placed to respond.

Table 2.3 Recent and forecast growth (% change YOY)

| | 1998 ^a | 1999 ^a | 2000 ^a | 2001 ^a | 2002 ^a | 2003 ^b | 2004 ^b | 2005 ^b |
|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 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 | 4.3 | 4.9 |
| Iran | 3.8 | 2 | 5.3 | 5.8 | 7.6 | 6.2 | 4.2 | 3.9 |
| Kuwait | 3.2 | -1.6 | 3.9 | -1 | -2 | 4.8 | 0.9 | 1.1 |
| Qatar | | 5.3 | 11.6 | 7.2 | 4.6 | 7.1 | 5.5 | 7 |
| AVERAGE | 2.8 | 1.86 | 7.6 | 3.34 | 2.54 | 6.1 | 3.04 | 3.7 |

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

2.22 This array of opportunities is broadly grouped under the following headings:

- Building and construction
- Engineering and consulting
- Healthcare and pharmaceutical services
- Education and training
- Tourism and tourism training
- Consumables
- Agriculture (including food and beverages)
- ICT products and services
- Financial services

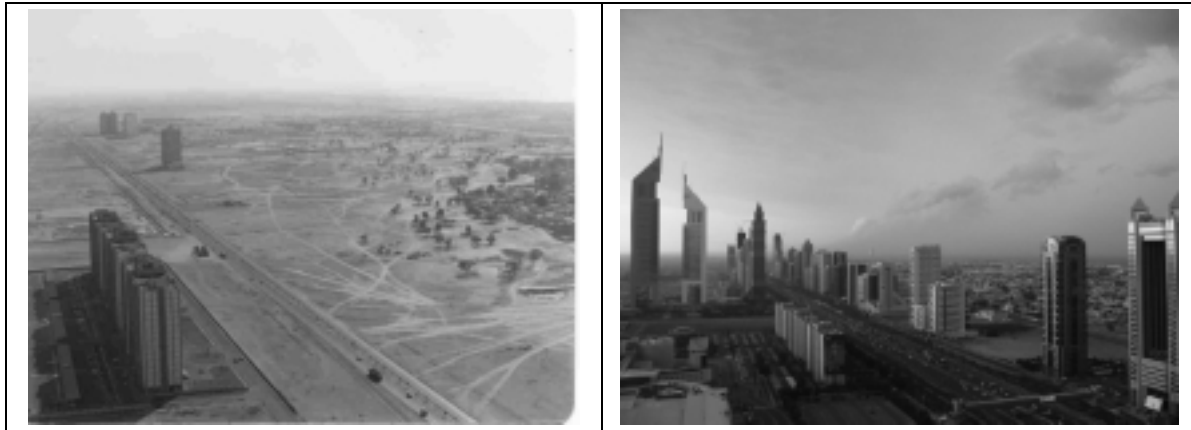
2.23 This is not an exhaustive list of perceived opportunities but a range of opportunities which emerged frequently through discussions with business leaders, officials, parliamentarians, chambers of commerce and others during the visit.

Building and construction

2.24 Building and construction is a good starting point because it is inevitably the first thing that strikes people visiting the region, especially Dubai. In each city we visited there was either substantial

construction underway or plans in place for substantial construction. Dubai again is the standout and the section on UAE in Chapter 3 will provide more examples.

Sheikh Zayed Road in Dubai in 1990 (left) and 2003 (right)



Source Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

- 2.25 For some idea of the scale of construction underway or planned it is worthwhile look at Dubai. The size of the UAE construction market has grown 25% to US\$30 billion over the last year. This includes the ambitious Dubailand project which is a USD 5 billion project covering 18,500 hectares² (The Homebush Bay Olympic site covered just 660 hectares).
- 2.26 Australian building and construction firms are already heavily involved in the region. Multiplex signs were common features at building sites.
- 2.27 The Palm Island project (see picture below) has 3,000 workers, 14 barges, 11 tugs, 4 dredges & 10 vessels working around the clock to move 30 billion cubic metres of sand and 2 billion cubic metres of rocks.³
- 2.28 Qatar has plans to spend AUD 7.03 billion⁴ on infrastructure projects over the next 6 years. This includes AUD 3.2 billion on roads, AUD 1.98 billion on buildings, AUD 684 million on sewerage facilities and \$1.14 billion on health and education facilities.⁵

² Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

³ Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

⁴ Exchange rate taken from Oanda (<http://www.oanda.com/convert/classic>) on 7 May 2004.

⁵ *Speech by Qatari Minister of Municipal Affairs and Agriculture* to MEED conference on major projects and investment opportunities in Qatar, January 2004.

Engineering and consulting

- 2.29 Building on Australia's strengths and heavy involvement in the region's construction industry, the committee felt that Australia's related strength in engineering consulting would also in great demand in the region.
- 2.30 The committee heard of several examples of projects to which Australian engineering expertise had had some direct or indirect input, including the landmark Burj Al-Arab Hotel in Dubai.
- 2.31 Australian firm GHD Consulting was active in Doha and various people met by the committee emphasized the opportunities that were available for proactive firms in the region.

Healthcare and pharmaceutical services

- 2.32 In a similar vein the region's desire to develop the traditional lack of infrastructure means healthcare is not of the standard of developed nations across the sector.
- 2.33 There are therefore opportunities for Australian healthcare providers to service healthcare needs both in Australia and in the region. Once again this opportunity is twofold. Australian organisations could deliver healthcare services both in Australia and the region but also, as with tourism, provide the education and training services which will underpin healthcare services in the region in the future.
- 2.34 Australia already has a large number of health professionals working in the region. The committee took evidence from three professional placement firms before the trip. Australian healthcare is already used by Gulf tourists to Australia and the Gold Coast area is already benefiting from the growing 'health tourism' sector.
- 2.35 Australia is well placed to increase its profile both as a health tourism destination (that is combining a holiday with a health service such as an elective treatment or cosmetic service), and as a provider of skilled health staff and health training professionals.
- 2.36 In contrast to the area of tourism, the Australian government has no representative in the region to seek out opportunities for itself and Australian healthcare services providers. The committee knows that the HIC has been successful in other regions exporting Australian expertise and training in the health sector. The committee feels the government should consider further investigating potential opportunities in this area.

Education and training

- 2.37 The more developed an economy the more it relies on the skills and knowledge of its members – its knowledge capital. Education, from primary school to postgraduate training, must underpin all efforts to develop an economy. This is true for the Gulf States.
- 2.38 Australia already being a major education exporter is well placed to act on this. Demand for Australian student visas is already growing at 30% per annum from Dubai.⁶ Almost all the countries visited were interested in more streamlined application procedures in the student visa process for Australia, suggesting growing demand to which Australia has not yet fully responded.

Palm Island Project model (left) and Dubai Marina development (right) overlooking Palm Island construction site



- 2.39 There are a few reasons why Australia is well positioned to penetrate the education market. Firstly Australia is a quality though comparably cheaper option than the US and UK for higher education. This fact does not seem to be well known.
- 2.40 Increased frequency of direct flights by Emirates, Gulf Air and possibly Qatar Airways in the future has diminished the perceived distance between Australia and the region. Sydney is only 13 hours flight away from Dubai and Perth is only 10 ½ hours away. Emirates' recent establishment of daily direct flights to Perth, Melbourne, Sydney and Brisbane has increased the flow of people and goods in both directions. Further, flights from Sydney and Melbourne fly twice daily and Emirates' has recently introduced non-stop services.

6 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

- 2.41 Education providers and others should be able to capitalise on this change.
- 2.42 The other factor working in favour of Australian education exporters is that Australia is seen as an alternative to the US and UK in terms services imports. The US and UK traditionally provided education services for people from the region, as destinations for people seeking prestigious degrees. The region's growing sensitivity to economic vulnerabilities has prompted them to seek new sources of imports including education services. Australia is seen in the region as a potential alternative.
- 2.43 One additional area of potential for Australia is in military education and training. When meeting with the defence minister of Kuwait, delegation members formed the view that the Australian defence suppliers had the opportunity to develop this market. This might include the provision of military training (see chapter 3). An example of military related export potential is the recent sale of Australian patrol boats to the Yemen worth AUD 100 million.

Tourism and tourism training

- 2.44 Another opportunity in the services sector is tourism and tourism training.
- 2.45 The Gold Coast of Australia is already a popular destination for holidaying Gulf nationals. It is perceived as safe and welcoming, and again its profile in the region has been growing due partly to increased frequency of direct flights to Australia and the regions enthusiasm for diversifying their economies. The abundance of apartments on the Gold Coast was also attractive to Gulf families where average family size is approximately six.
- 2.46 The committee acknowledges the timeliness of the Australian Tourist Commission's appointment of a representative to the region. As mentioned above much of the region is cash rich and looking for safe and friendly alternatives to Europe and the US.
- 2.47 Additionally several people pointed out that Gulf Arabs tend to holiday in family groups for longer periods such as a several weeks or a month.
- 2.48 On the other side of the coin, Gulf countries are interested in developing tourism industries in their own countries. In all of the countries visited hospitality service standards were being raised. This

opens another opportunity for Australian organizations involved in tourism training. Either in Australia or offshore in the region, Australian hospitality expertise would find substantial demand in helping bring Gulf hospitality standards to world best practice.

- 2.49 The massive Dubailand project mentioned above aims to make Dubai the tourism hub for the region. There are few indigenous hospitality training institutions and a relatively undeveloped industry, in contrast to Australia's long established and highly developed industry.
- 2.50 Similarly Qatar would like to develop Doha as a tourist hub in the region. It has long term plans for massive tourist development, both in desert resorts but also seaside resorts. Again Qatar has the financial resources to do this but none of the indigenous skills or trained personnel. Clearly Australia could develop and/or provide these capabilities.

Consumables

- 2.51 As one would expect in wealthy countries there is a strong demand for a range of consumables. Everything from cars, to leisure boats, sporting equipment, jewellery, electronic goods, clothing – all things not produced and unlikely to be produced locally.
- 2.52 Any sector of consumer goods in which Australia is successful would be well positioned to capitalise on demand in the region for such goods.

Cars, parts and after market accessories

- 2.53 Australia has experienced impressive recent success in the sale of cars into the region. In the early 1990s there were virtually no Australian cars sold into the region. Currently one in five cars in the Middle East is Australian built.⁷ The main models sold are the Holden Caprice (badged as a Chevrolet Lumina) and the Toyota Camry. The Mitsubishi Magna also has significant sales into the region.
- 2.54 The committee noted that three of the four major Australian car producers were selling into the region. It would like to encourage other Australian car manufacturers to look to the region and take up the considerable opportunities available to it.

7 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

- 2.55 This success opens a range of other opportunities for Australia producers. As the number of Australian cars on the road in the region grows, the market for car parts will grow.
- 2.56 Similarly Australia's mature market in after-market accessories will also be able to push into the region's equivalent market which is still quite undeveloped. There is also likely to be opportunities for such accessories manufacturers to develop new accessories appropriate to the harsh driving conditions in the region.

Leisure

- 2.57 As the economy of the region modernizes, work and leisure patterns are likely to converge to some degree with those of other developed nations, as they are doing in Dubai. Accordingly leisure activities are likely to increase. Such a trend is already evidenced by the intensity of development along the coastal areas in UAE, Qatar and Kuwait. Maritime leisure activities such as beach swimming, boating (including jetskiing), fishing, waterskiing, sailing etc are likely to grow.
- 2.58 All these areas are ones in which Australia has a long history and a strong comparative advantage.

Agriculture

Food and beverage

- 2.59 Two main factors suggest that opportunities for Australia food and beverage producers in the region are likely to be strong and growing.
- 2.60 The first is the growing wealth of the region. As countries in the region liberalise, a growing demand for a wider range of quality food products is likely.
- 2.61 Australia is known as one of the highest quality sources of agricultural produce across the board. This knowledge and the well established trading links position Australia well for expansion in this sector.
- 2.62 AWB is a good example of a long trading organization with strong links to the region providing premium quality grains. It has, for example, over time built a strong relationship with Kuwait Flour Mills & Bakeries and is currently the sole supplier for Kuwait. All Kuwaiti breads are made with Australian grain. Such trading

relationships are based on long terms efforts and are invaluable in terms of reputation for Australian producers.

- 2.63 The second factor, which applies most to fresh produce, is the growth in number and frequency of direct flights to the region. Emirates and Gulf Air (and soon Qatar Airways) have many direct flights to the region opening up opportunities for fresh produce exports to the region.
- 2.64 As discussed above Emirates' recently established daily direct flights to Perth, Melbourne, Sydney and Brisbane and double daily flights from Sydney and Melbourne which are non-stop services.
- 2.65 This growth in direct flights and frequency of flights makes fresh food and beverage trade much easier. For example, the committee spoke to representatives of Emirates Resorts who buy a substantial proportion of their fresh fruit and vegetables from Australia.
- 2.66 Opportunities for other fresh produce have also been made possible by these flights. Fresh flowers are another example. Emirates airlines told the committee that Dubai plans to create a fresh flower market for the region which will be comparable to the renowned flower market in Amsterdam.
- 2.67 Australia's 'clean and green' image in this field is a tremendous asset and there is no reason why a range of other fresh products such as flowers could not also be exported in a similar way using available transport capacity.

Import dependence in UAE, Qatar and Kuwait

- 2.68 These opportunities were greatest in countries which had no specific capability or ambitions in the area of agriculture. UAE, Qatar and Kuwait have limited food production capacity and accordingly they provide the greatest opportunity for Australian exporters in this field.
- 2.69 The countries which either have some agricultural capability or are ambitious in the area are Saudi Arabia and Iran.
- 2.70 Although Saudi Arabia intends to scrap some of its agricultural production capabilities, it still does retain some strategic agricultural industries. An area of potential for Australia likely to resume shortly is the export to Saudi Arabia of live animals.
- 2.71 In light of recent difficulties with Australian live animal exports, the committee took soundings at various meetings on the potential for live animals to be sold into a secondary market and then on-sold to

other Gulf countries. The Abu Dhabi Chamber of Commerce and Industry responded very positively to the idea.

- 2.72 Iran, on the other hand, has a strong agricultural sector and therefore is likely not to provide as many opportunities for Australian exporters in this sector. Iran may however provide opportunities in terms of exports of Australian agricultural technology and expertise. This is discussed further in Chapter 3.

Equine industry and associated products

- 2.73 Australia's strong reputation in breeding endurance horses might also provide export opportunities. An Australian horse won a major UAE endurance race during the visit and a number of Australian jockeys are already working in the region.
- 2.74 Complementary exports of expertise and technologies related to the health of animals such as veterinarians, farriers and trainers might also find a market in the region. The committee would encourage people and firms in the field to investigate these opportunities.

ICT products and services

- 2.75 Internet City and Knowledge Village in Dubai also held much promise for exports of Australian expertise. The region, especially Dubai, wants to develop this sector quickly and accordingly offered a range of incentives to companies willing to invest in Dubai. These included very business friendly packages involving: cheap premises, 'ready to go' office configurations, tax breaks, and visa and immigration support.
- 2.76 The committee feels that Australian companies strong in this sector would find Dubai a reasonably easy market to enter. It provides great opportunities and also provides a stepping stone to other markets in the region.

Financial services

- 2.77 The growing sophistication of the Gulf economies is also likely to provide opportunities for Australian companies and individuals in the financial sector.
- 2.78 Laurence Elms, CEO of the Dubai International Finance Centre (an Australian expatriate), told of the many Australians in his organization. There had not been much Australian interest in

investing in the DIFC to date, but that investors would come in time. He believed Macquarie Bank was interested in the region and if they did invest he believes it might prompt others to follow to capitalise on the growing opportunities.

Challenges in the region

Security

- 2.79 The region does face a few challenges to its prosperity and development which should be borne in mind when considering trading or investing in the region.
- 2.80 The ever-present challenge is the same as that for the rest of the world – the threat of transnational terrorism.
- 2.81 In terms of Australia’s official travel advice, all countries visited except Saudi Arabia had the same general travel warning.⁸ Saudi Arabia was seen as a higher risk destination with the DFAT travel advice suggesting ‘Australians should defer non-essential travel to Saudi Arabia’.⁹

Population

- 2.82 As alluded to above the youthful and growing populations in the region are a source of great potential for Australia business. The growth of population is also a potential risk in the medium to long term.
- 2.83 With 50% of the population in the region under 25 years of age,¹⁰ failure to nurture substantial growth in economy and jobs could result in social problems in the future.
- 2.84 This challenge will clearly not be resolved quickly or easily but all the organisations and people the committee met with during the visit were seized of this challenge and acting on it. These efforts were

8 In view of continuing tensions in the Middle East and the ongoing risk of terrorist attacks against Western interests, Australians in Qatar should exercise a high degree of caution and maintain a high level of personal security awareness. Particular care should be exercised in commercial and public areas known to be frequented by foreigners.

9 http://www.dfat.gov.au/zw-cgi/view/Advice/Saudi_Arabia. 7 May 2004.

10 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

reflected in the government programs to liberalise their economies, 'localise' the private sector (encourage the involvement of nationals in the private sector) and diversify their economies away from oil and/or gas into complex manufactures, services and so on.

Oil and economic stability

- 2.85 Another major problem is the problem of oil/gas dependency in the Gulf state economies. Regardless of their efforts to date, all of the countries visited still depend heavily on their oil and/or gas exports. This generally means that years in which oil prices are up are boom years and years in which oil prices are down are slow years.
- 2.86 Sustained poor oil prices or long term failure to diversify economies in the region would threaten stability in the region and should be borne in mind.
- 2.87 As of the moment however, these issues do not pose a great threat. The developed world's demand for oil is consistently growing, and demand coming from the rapidly developing countries of China and India is likely to only grow.

