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THE ROLE OF THE GULF COOPERATION
COUNCIL IN THE ECONOMIC DEVELOPMENT
OF THE GULF STATES

by

RASHED MEZED ALI AL-SANI

A thesis submitted for the degree of
Doctor of Philosophy

University of Durham
Faculty of Social Sciences

September 1992

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Dedication

This thesis is dedicated to my beloved parents, my brothers and my sisters with great respect for their encouragement, and patience.

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Abstract

As a regional organisation, the Gulf Cooperation Council is a somewhat unique experiment in the contemporary Middle East and in the Arab world in particular. It is the first regional organisation in the modern Arab nation-state system, aside from the Arab League, formed in 1946, that has espoused a functional approach to cooperation, while at the same time preserving the political sovereignty and independence of the member states. Since its founding, the GCC has been the focus of debate regarding its nature and functions. Intentionally or not, it has become a major media event, a fact that has contributed to the credibility gap between rising expectations based on public pronouncements and real achievements.

This thesis is an inquiry into the role of the Gulf Cooperation Council in the economic development of the participating countries. The study comprises seven chapters, detailing both the scope and purpose of the study, and the criteria employed in the research. The main chapters examine the relative contribution of physical and human resources involved in cooperation between the Gulf countries. In addition, the contribution of agriculture and fisheries, as well as industrial development, to the G.C.C. countries are expounded. The services in the G.C.C. countries are specified. External trade and migration in the G.C.C. countries is discussed in detail. The conclusion describes the role of the Gulf Cooperation Council in economic development and includes suggestions and recommendations for the future.

CONTENTS

CHAPTERS

One Introduction	1
1.1 Context	1
1.2 The Formation of the GCC	3
1.3 Charter of the GCC: Objectives and Structure	8
1.3.1 Objectives of the GCC	10
1.3.2 Structure of the GCC	10
1.4 Purpose and Methodology of Study	16
1.4.1 Purpose of Study	16
1.4.2 Methodology of Study	16
Two Physical and Human Resources	20
2.1 Geographical Features	20
2.2 Population Size and Growth Rate	22
2.3 Population by Age, Structure and Sex	23
2.4 Proportion of Economically Active Population by Economic Sector	24
2.5 Literate Population and Literacy Rate	28
2.6 Geographical Distribution of Population	28
2.6.1 Kuwait	28
2.6.2 Oman	36
2.6.3 Bahrain	36
2.6.4 Qatar	28 37
2.6.5 United Arab Emirates	37
2.6.6 Saudi Arabia	38
Three Agricultural Development in the GCC Countries	40
3.1 Introduction	40
3.2 Qatar	40
3.2.1 Crop Production	41
3.2.2 Meat, Fish and Related Production	41
3.3 Kuwait	43

3.3.1	Introduction	43
3.3.2	Production, Area and Yield of Different Crops	43
3.3.3	Meat and Fish Production	44
3.3.4	Livestock	44
3.4	Bahrain	45
3.4.1	Introduction	45
3.4.2	Production, Area, Yield of Different Crops	45
3.4.3	Meat and Fish Production	47
3.4.4	Eggs, Milk and Dairy Production	47
3.4.5	Livestock	47
3.5	Oman	48
3.5.1	Introduction	48
3.5.2	Production, Area and Yield of Different Crops	49
3.5.3	Fisheries	49
3.5.4	Livestock	50
3.6	Saudi Arabia	51
3.6.1	Introduction	51
3.6.2	Production, Area and Yield of Different Crops	52
3.6.3	Poultry, Livestock and Dairy Production	53
3.6.4	Agricultural Loans and Subsidies	54
3.6.5	Livestock	56
3.6.6	Fisheries	56
3.7	United Arab Emirates	57
3.7.1	Introduction	57
3.7.2	Livestock	60
3.7.3	Fisheries	60
3.8	Agricultural and Fishery Cooperation Amongst the GCC States ...	60
3.9	Summary	62
Four	Industrial Development in the G.C.C. Countries	65
4.1	Introduction	65
4.2	Qatar	67
4.2.1	Introduction	67

4.2.2 Industry	68
4.2.2.1 Oil Industry	68
4.2.2.2 Gas Industry	69
4.2.3 Petroleum Refining	71
4.2.4 Petrochemicals	72
4.2.5 Aluminium Smelting	73
4.2.6 Cement Industry	73
4.2.7 Iron and Steel Industry	74
4.2.8 Other Industries	74
4.3 Kuwait	75
4.3.1 Oil Industry	75
4.3.2 Natural Gas Industry	78
4.3.3 Petroleum Refining	79
4.3.4 Petrochemicals	81
4.3.5 Aluminium Smelting	82
4.3.6 Cement Industry	83
4.3.7 Other Industries	83
4.4 Bahrain	84
4.4.1 Introduction	84
4.4.2 Oil Industry	85
4.4.3 Gas Industry	86
4.4.4 Petroleum Refining	87
4.4.5 Petrochemicals	88
4.4.6 Aluminium Smelting	88
4.4.7 Iron and Steel Industry	89
4.5 Oman	90
4.5.1 Introduction	90
4.5.2 Oil Industry	90
4.5.3 Natural Gas Industry	93
4.5.4 Petroleum Refining	94
4.5.5 Cement Industry	94
4.5.6 Other Industries	95

4.5.6.1 Building Material Company	95
4.5.6.2 Readymade Clothes Company	95
4.5.6.3 Dhofar Refreshment Company	95
4.5.6.4 National Mineral Water Company	96
4.5.6.5 Mining	96
4.6 Saudi Arabia	96
4.6.1 Introduction	96
4.6.2 Oil Industry	97
4.6.3 Natural Gas Industry	100
4.6.4 Petroleum Refining	101
4.6.5 Petrochemicals	102
4.6.6 Cement Industry	103
4.6.7 Iron and Steel Industry	103
4.6.8 Other Industries	105
4.7 United Arab Emirates	105
4.7.1 Introduction	105
4.7.2 Oil Industry	106
4.7.3 Oil in Abu-Dhabi	108
4.7.4 Oil in Dubai	111
4.7.5 Oil in Sharjah	111
4.7.6 Oil in Ras al-Khaimah	112
4.7.7 Natural Gas Industry: An Overview	113
4.7.8 Natural Gas in Abu-Dhabi	113
4.7.9 Gas in Dubai	115
4.7.10 Gas in Sharjah	115
4.7.11 Gas in Ras al-Khaimah	116
4.7.12 Petroleum Refining	116
4.7.13 Petrochemicals	117
4.7.14 Aluminium Smelting	117
4.7.15 Cement Industry	117
4.8 Industrial Cooperation Amongst the G.C.C. Countries	118
4.9 Summary	120

Five Services Development in the GCC Countries	123
5.1 Introduction	123
5.2 Qatar	124
5.2.1 Introduction	124
5.2.2 Education Services	125
5.2.3 Health and Housing Services	126
5.2.4 Information and Tourism	126
5.2.5 Transport and Communications	127
5.2.5.1 Roads	127
5.2.5.2 Ports	127
5.2.5.3 Airports	128
5.2.5.4 Telecommunications	128
5.2.6 Insurance and Banking	129
5.2.7 Electricity and Water	131
5.3 Kuwait	131
5.3.1 Introduction	131
5.3.2 Education Services	132
5.3.3 Health and Housing Services	133
5.3.4 Information and Tourism	135
5.3.5 Transport and Communications	137
5.3.5.1 Ports	137
5.3.5.2 Airports	137
5.3.5.3 Roads	138
5.3.5.4 Telecommunications	138
5.3.6 Insurance and Banking	138
5.3.7 Electricity and Water	141
5.4 Bahrain	142
5.4.1 Introduction	142
5.4.2 Education Services	142
5.4.3 Health and Housing Services	143
5.4.4 Transport and Communications	144
5.4.4.1 The Causeway	144

5.4.4.2	Ports	145
5.4.4.3	Airports	145
5.4.4.4	Telecommunications	146
5.4.5	Insurance and Banking Services	147
5.4.6	Electricity and Water Services	151
5.5	Oman	152
5.5.1	Introduction	152
5.5.2	Education Services	152
5.5.3	Health and Housing Services	153
5.5.4	Transport and Communications	155
5.5.4.1	Roads	155
5.5.4.2	Ports	155
5.5.4.3	Airports	156
5.5.4.4	Telecommunications	156
5.5.5	Banking and Insurance	157
5.5.6	Electricity and Water	159
5.6	Saudi Arabia	162
5.6.1	Introduction	162
5.6.2	Education Services	162
5.6.3	Health and Housing Services	162
5.6.4	Transport and Communications	165
5.6.4.1	Roads	165
5.6.4.2	Railway	165
5.6.4.3	Ports	166
5.6.4.4	Airports	166
5.6.4.5	Communications	167
5.6.5	Banking and Insurance	167
5.6.6	Electricity and Water	169
5.7	United Arab Emirates	170
5.7.1	Introduction	170
5.7.2	Education Services	171
5.7.3	Health and Housing Services	171

5.7.4	Information and Tourism	172
5.7.5	Transport and Communications	173
5.7.5.1	Ports	173
5.7.5.2	Airports	174
5.7.5.3	Roads	175
5.7.5.4	Telecommunications	176
5.7.6	Insurance and Banking Services	176
5.7.7	Electricity and Water Services	178
5.8	Cooperation in Services Sector	179
5.8.1	Finance	179
5.8.2	Transportation	180
5.8.3	Electricity and Water	183
5.8.4	Communications	184
5.8.5	Education	185
5.8.6	Information	188
5.9	Summary	189
Six	External Trade and Migration in the G.C.C. Countries	193
6.1	Introduction	193
6.2	Qatar	195
6.2.1	Introduction	195
6.2.2	Exports	195
6.2.3	Imports	196
6.3	Kuwait	198
6.3.1	Introduction	198
6.3.2	Exports	199
6.3.3	Imports	201
6.3.4	Kuwait's Trade with the G.C.C. Countries	203
6.3.5	Government Procedures to Active Foreign Trade	205
6.4	Bahrain	205
6.4.1	Introduction	205
6.4.2	Exports	206
6.4.3	Imports	207

6.5	Oman	209
6.5.1	Introduction	209
6.5.2	Exports	209
6.5.3	Imports	211
6.6	Saudi Arabia	214
6.6.1	Introduction	214
6.6.2	Exports	214
6.6.3	Imports	215
6.6.4	Non-Oil Trade with G.C.C. Countries	220
6.7	United Arab Emirates	222
6.7.1	Introduction	222
6.7.2	Exports	222
6.7.3	Imports	224
6.7.4	U.A.E. Intra-Trade with the G.C.C. Countries	227
6.8	Migration in the G.C.C. Countries	232
6.8.1	Socio-Demographic Characteristics	234
6.8.2	Changing Demographic and Labour Trends	237
6.8.3	Mobilising Gulf Human Resources	241
6.8.4	Kuwait	242
6.8.4.1	Introduction	242
6.8.4.2	Levels and Trends of Migration	243
6.8.4.3	Age-Sex Pattern of Migration	244
6.8.4.4	Ethnic Composition and Origin of Migration	245
6.8.4.5	Employment and Educational Characteristics of Immigrant Labour	247
6.8.4.6	Development and Immigration Policy	251
6.9	Cooperation in Trade and Migration Sector	253
6.9.1	Trade	253
6.9.2	Labour	259
6.10	Summary	260
Seven	Conclusion	267
7.1	A Review of Progress	267

7.2 Evaluation	273
7.2.1 Lessons from the European Community	274
7.2.2 Specific Features of GCC	278
7.3 Suggestions for Further Consideration	287
Bibliography	291
Appendix A	305
Appendix B	315
Appendix C	326

List of Tables

2.1	Distribution of Economically Active Population by Sector	26
3.1	Production, Area and Yield of Different Crops, (tons)	42
3.2	Agricultural Production (000 tons)	44
3.3	Agricultural Production (000 tons)	46
3.4	Production of Vegetables and Fruits from Production farms (000 tons)	50
3.5	Agricultural Area and Production	54
3.6	Poultry and Eggs Production (000 tons)	55
3.7	Estimation of Total Area Under Agricultural Holding by District 1981-1986 (Area by Donum)	58
3.8	Estimation of Vegetables Products in U.A.E. 1982-1986 (Qnty: ton)	59
4.1	Oil and Gas Statistics Summary	69
4.2	Oil Production, Prices and Exports (000/d)	77
4.3	Production of Natural Gas (mn m^3)	79
4.4	Petrochemical Output (000 tons)	82
4.5	Oil and Gas Statistics Summary	86
4.6	Oil Revenues, Production	93
4.7	Annual Production of Crude (m. barrels)	99
4.8	Industrial Production Sabic Companies (000 tons)	104
4.9	Oil Production of the U.A.E.'s	107
5.1	Monetary Indicators (QR mn, end period)	130
5.2	Monetary Survey (KD mn)	139
5.3	Government Hospitals and Health Centres (1983-1986)	144
5.4	Offshore Banking Units, Assets and Liabilities (\$mn, end period)	149
5.5	Money Supply (OR mn, end period)	159
5.6	Health Facilities and Medical Staff in the Kingdom	163
5.7	Consolidated Commercial Bank Portfolios (mid-year), (SR mn)	168
5.8	Tonnage Landed in Dubai (tons)	174
5.9	Money Supply, end period (Dh mn)	178
6.1	Foreign Tmetal Summary (QR mn)	195

6.2 Qatar Imports by Origin (% of Total imports by value)	197
6.3 Balance of Trade	199
6.4 Imports from Ten Major Countries (million dinars)	202
6.5 Value of Trade Between Kuwait and G.C.C. Countries (million dinars)	204
6.6 Summary of Exports	206
6.7 Total of Non-Oil Imports (%) Classified by Countries	208
6.8 Direction of Oil Exports (in million barrels)	211
6.9 Value of Imports by Regions and Countries of Exports (% of total imports by value)	213
6.10 Oil Exports (million riyals)	215
6.11 Imports (CIF)	216
6.12 Private Sector Imports Financed Through Commercial Banks (Amounts in million Rls)	217
6.13 Saudi Imports by Origin (million Rls)	219
6.14 Saudi Non-Oil Trade with the G.C.C. Countries (million riyals)	220
6.15 Structure of Non-Oil Exports (in million of Dh)	223
6.16 Structure of Recorded Re-Exports (in mn. of Dh)	225
6.17 Value of Imports by Origins and Countries of Exports (%)	227
6.18 Distribution of U.A.E. Imports from G.C.C. States by Country of Origin (1988)	230
6.19 Available Information on Stock of Foreign Population in G.C.C. Countries (1960-1986)	234
6.20 Distribution on Non-Nationals by Age Group and Sex in the Six fill 000 G.C.C. Countries (%)	239
6.21 Population Growth by Nationality, 1957-1986	243
6.22 Composition of the Non-Kuwait Population by Nationality Group, 1975-1985	246
6.23 Percentage Distribution of the Labour Force According to Educational Attainment, 1985	248
6.24 Distribution of the Economically-Active Population by Sex and Major Industrial Group, 1985	250

List of Figures

2.1 Relative Size of the Arab Gulf States by Area	21
2.2 Location of Cities and Roads in the G.C.C. Countries	30

Abbreviations

- ADGAS** = Abu-Dhabi Gas Liquifaction Company
- ADNOC** = Abu-Dhabi National Oil Company
- AISCO** = Arab Iron and Steel Company
- ALBA** = Aluminium Bahrain
- ARIG** = Arab Insurance Group
- BALCO** = Bahrain Aluminium Company
- BANAGAS** = Bahrain National Gas Company
- BAPCO** = Bahrain National Petroleum Company
- BBME** = The British Bank of the Middle East
- BCCI** = The Bank of Credit and Commerce International
- BELEXCO** = Bahrain Aluminium Extrusion Company
- BMA** = Bahrain Monetary Agency
- BP** = British Petroleum
- CBK** = Central Bank of Kuwait
- CEWR** = The new Council of the Environment and Water Resources
- DUBAL** = Dubai Aluminium
- DUMA** = Dubai Marines Areas
- EA** = An Economic Agreement
- EEC** = European Economic Community
- EGPC** = Emirates General Petroleum Corporation
- FERTEL** = Ruwais Fertilizer Industries
- FIBB** = Faisal Islamic Bank of Bahrain
- GATT** = General Agreement on Trade and Tariffs
- GPIC** = Gulf Petrochemical Industries Corporation
- G.C.C.** = Gulf Cooperation Council
- GDP** = Gross Domestic Product
- GIIC** = Gulf Industrial Investment Company
- GOIC** = Gulf Organization for Industrial Consulting
- IBK** = Industrial Bank of Kuwait
- IDTC** = Industrial Development Technical Centre

IIC = Industrial Investment Company
IP = International Petroleum
KAC = Kuwait Airways Corporation
KCC = Kuwait Cement Company
KFTCIC = Kuwait Foreign Trading, Contracting and Investment Company
KIC = Kuwait Investment Company
KIO = Kuwait Investment Office
KNPC = Kuwait National Petroleum Corporation
KOTC = Kuwait Oil Tanker Company
KPC = Kuwait Petroleum Company
KPC = Kuwait Petroleum Corporation
KOC = Kuwait Oil Company
KUFPEC = Kuwait Foreign Petroleum Exploration Company
LNG = Liquefied Natural Gas
LPG = Liquefied Petroleum Gas
m bd = Million barrels per day
MIDAL = Middle East Aluminium Cable
NODCO = National Oil Distribution Company
OBUS = Offshore Banking Units
OECD = Organization of Economic Co-operation and Development
OIB = Oman International Bank
OPEC = Organization of Petroleum Exporting Countries
PAWR = The Public Authority for Water Resources
PDO = Petroleum Development of Oman
PDTC = Petroleum Development Trucial Coast
PETROMIN = The Saudi Arabian Petroleum Mineral Organization
PIC = Petrochemical Industries Company
REDF = The Real Estate Development Fund
SPA = The Saudi Ports Authority

CHAPTER ONE

Introduction

1.1 Context

In reviewing the short history of the Gulf Cooperation Council (GCC), we should make four initial comments. First, the GCC came into being as a response to serious security-related developments in the Gulf, such as the Soviet invasion of Afghanistan, the Islamic revolution in Iran, and the Iraq-Iran war. Second, although Gulf official pronouncements have highlighted the economic, cultural, and educational goals of the GCC, and the GCC was initially presented as another step along the already established road of cooperation among family-ruled states, it has been unable to make much impact as a regional organisation except for supporting security arrangements. Thirdly, the security function of the GCC has been even more important because of the rising wave of terrorism in the region. In the Gulf context, this regional terrorism has been viewed as an attempt to replace the existing regimes with pro-Iranian ones. The unsuccessful plot in Bahrain in December 1981, the bombings in Kuwait in 1984 and 1985, and the assassination attempt on the Amir of Kuwait in May 1985 were all interpreted by Gulf governments as concerted moves to disrupt their countries from within. In commenting on the explosions in Kuwait in July 1985, Gulf newspapers saw a more ominous threat directed against both the GCC and democratic experiment in Kuwait itself. (Kuwait was the only GCC state with an elected national assembly and a relatively free press.)

Fourthly, since its founding twelve years ago, the GCC has increasingly become a media event; coverage has been promoted both by Gulf governments and by the GCC secretary-general. GCC summits have also been heavily publicised through official government publications, news releases, and intensive media

reports. For example, over 250 GCC-related news articles appeared in the region's media between 1981 and 1985, as reported in the Foreign Broadcasting Information Service Daily Report. Almost 40 percent of these articles dealt with security, 25 percent reported on GCC meetings, 20 percent focused on cooperation, and 15 percent discussed the efforts of the GCC to mediate the Iraq-Iran war. The different ministerial meetings, particularly those of foreign affairs and defence, have also been covered in the press, (Nakhleh,E.1986).

Since 1984, the added concern with security as a result of increasing terrorism has led to more contacts among the interior ministers of the GCC. This too has been heavily publicised in the Gulf press. Consequently, a gap has developed, at least in the people's perceptions, between the media coverage and the actual achievements of the GCC, even in the field of security. For example, in spite of the council's preoccupation with security, at least as evidenced by the press coverage, the security agreement that Saudi Arabia has promoted since 1981 has not yet been signed by the member states. Kuwait still finds the agreement objectionable. In newspaper interview in London in mid-July 1985, the Bahraini Minister of Information stated that security cooperation among GCC was taking place with or without a written agreement, (Nakhleh,E.1986). This is also the case with economic cooperation . Although the GCC's Unified Economic Agreement went into effect in 1983, its impact on the life of GCC citizens has yet to be felt.

To many of the Gulf's policy-oriented elites, the GCC came into being primarily as a reaction to regional threats in the late 1970s and early 1980s. They believe Western democracies, particularly the United States, have supported the establishment of the GCC because they saw in it an anti-Communist front and a potential lucrative market for Western-produced weapons and defence related technology. With the international oil glut, the reduction in oil production,

and the diminishing oil revenues, Gulf governments must become more accountable to their peoples, particularly in terms of distributing the economic benefits. The Kuwaiti National Assembly has already raised serious questions about the country's international long-term financial commitments. Indeed, the National Assembly has decided in 1985, to eliminate the \$ 300 million annual subsidy to Jordan, Syria, and the Palestine Liberation Organisation. The tighter the financial situation becomes in the Gulf, the more questions will be raised and the real contribution of the GCC to economic development examined.

1.2 The Formation of the GCC

On 25th May, 1981, the leaders of the six Gulf states met in UAE, to convene the first Summit Conference to sign the Charter of the Gulf Cooperation Council. The subsequent establishment of the Gulf Co-operation Council (GCC), has inspired its six member countries viz, Saudi Arabia, Bahrain, UAE, Kuwait, Qatar and Oman, to create and develop the appropriate institutions capable of carrying out their objectives for co-operation and regional integration.

The communique also indicated that the GCC charter was the culmination of many previous meetings and contacts among the heads of state and the foreign ministers of the six Gulf states. The establishment of the GCC, according to this communique, rests on four major assumptions:

- (1) Cooperation among these states is natural and has existed for many years.
- (2) Gulf states would be able to protect their interests much better as a regional organisation than as individuals.
- (3) The security of the Gulf is the responsibility of its peoples and states; any foreign intervention must be rejected.
- (4) Stability in the Gulf is linked to peace in the Middle East and to a just resolution of the Palestine conflict, which would guarantee the legitimate rights of the Palestinian people in the context of an independent state.

The announcement on May 26th was preceded by intensive contacts and meetings. Some of these contacts date back to the late 1970s. In a series of visits to the lower Gulf in December 1978, the Amir of Kuwait strongly advocated the theme of regional cooperation, as is evident from the following summary of those meetings.

December 6th, 1978. A communique following a meeting between the Amir of Kuwait and the King of Saudi Arabia emphasised the two rulers' "belief in working for cooperation among the two states in all fields and in keeping the region secure and stable and away from international struggle" (Nakhleh, E. 1986).

December 9th, 1978. A communique following the meeting between the Amir of Kuwait and the Amir of Bahrain called for "continued efforts for more cooperation and coordination among the states of the region through a unified and a comprehensive political, economic, social and educational plan" (Nakhleh, E. 1986).

December 12th, 1978. A communique following the meeting between the Amir of Kuwait and the Amir of Qatar stated that "the sensitive situation present in the Gulf makes it imperative for the Arab states of the Gulf to intensify their efforts for a unity agreement among themselves".

December 16th, 1978. A communique following the meeting between the Amir of Kuwait and the Amir of Abu Dhabi stated that "the common national and religious ties and the common aspirations of the Arab peoples of the region dictate that the states of the region should unify themselves".

December 20th, 1978. A communique following the meeting between the Amir of Kuwait and the Sultan of Oman stated that "in the light of the new circumstances in the region, it is imperative that the Gulf Arab states arrive at the

strongest cooperative agreement possible among themselves - cooperation dictated by their common Islamic faith, historical relations and their peoples' aspirations for the realisation of more progress and prosperity".

Indeed, following the meeting of the Gulf foreign ministers in Kuwait on February 5th, 1981, the Saudi foreign minister pointed to his Kuwaiti counterpart before the press and said "Here is the father of the GCC project".

Several meetings were held in 1981 in preparation for the creation of the GCC. The first meeting was held February 4th, 1981 in Kuwait and was attended by the foreign ministers of the six states which later formed the GCC. At the conclusion of the meeting, they issued a communique declaring that in the light of their similar systems, Islamic belief, and social, economic and demographic structures, they had agreed to establish a cooperation council. The foreign ministers also stated in the same communique that they would meet a month later to follow up on the specific structure and goals of the cooperation council.

Following this meeting, a committee of experts from the six states met twice: in Jeddah, Saudi Arabia on February 24th, 1981 and in Muscat, Oman in March 4th 1981. The purpose of those meetings was to develop a draft charter and bye-law which would be reviewed and agreed upon by the foreign ministers. At the conclusion of the Muscat meeting on March 18th, 1981 the committee of experts had agreed on a draft charter that included three structures: a supreme council, a ministerial council and a secretariat-general.

On Monday, March 9th, 1981, the foreign ministers met in Muscat and approved the basic structure and the draft charter which had been prepared by the committee of experts with only minor changes. Specifically, the foreign ministers approved three documents: the bye-law of the Cooperation Council, the bye-law of the Supreme Council, and the bye-law of the Ministerial Council. The ministers

also made four recommendations: (1) to hold a meeting of the Supreme Council in May and in November of every year, (2) to hold the first session of the Supreme Council in Abu Dhabi (United Arab Emirates) on May 26th - 27th, 1981, (3) to hold a meeting of the committee of experts in Abu Dhabi on May 20th, 1981 to finalise the bye-law of the Commission for Settlement of Disputes, (4) to agree in principle that the Secretary-General of the Cooperation Council should be from Kuwait.

The committee of experts met in Abu Dhabi on May 19th - 20th, 1981 to prepare for the GCC summit and to discuss the bye-law of the Commission for Settlement of Disputes. This two-day meeting was followed by a meeting of the foreign ministers in Abu Dhabi on May 23rd, 1981. At that meeting, the foreign ministers approved the bye-law of the Commission for Settlement of Disputes, nominated Abdullah Bishara as Secretary-General of the GCC and prepared the agenda for the impending GCC summit.

The first GCC summit was held on May 25th - 26th, 1981 in Abu Dhabi. The meeting was indeed a historic occasion for the family-ruled states of the Gulf. It was the first time they had assembled as independent states to discuss issues that were of particular concern to them as Gulf states. Secondly, the assembly reflected both a desire that these concerns could and should be addressed in a cooperative framework and a determination that the stability of the region would be their primary responsibility.

Each delegation of the six member states included the head of state, a special advisor to the head of state, the foreign minister and the finance minister. On the second day of the summit, a "working paper on joint Gulf action" was presented. Highlights of the working paper included the following points:

- (1) The establishment of the GCC, coming at a most propitious time, is a response to the current historical, social, cultural, economic, political and

strategic environment.

- (2) The GCC is a natural culmination of a long history of cooperation.
- (3) The many serious challenges - economic and political - presently facing the Gulf have made joint action imperative. Regional cooperation has become vital in the present era for the preservation of stability, security and progress.
- (4) Arab unity has been the dream of all Arabs since World War II, and insofar as joint Gulf action brings Gulf states together, it provides a solid step toward the realisation of this dream.
- (5) The biggest challenge facing the oil-producing Gulf states today is the need to utilize oil-generated wealth for development. Joint action within the GCC would help Gulf societies meet this challenge.

Based on these points, the summit agreed to set up five ad hoc committees, headed by appropriate ministers, for social and economic planning, economic and financial cooperation, industrial cooperation, oil, and social and cultural services. The summit concluded on May 26th, 1981 with a summit communique announcing the establishment of the Gulf Cooperation Council.

Hundreds of GCC meetings have been held throughout the six states since that founding in 1981. These meetings have involved foreign ministers, interior ministers, chiefs of staff, directors of immigration, health ministers, directors of customs, finance ministers, oil ministers, directors of scientific research institutes, education ministers and transportation ministers. Meetings have also been held by deputy ministers, who are charged by their respective governments with the responsibility of pursuing cooperation in the GCC in their respective areas. The five committees that were originally established have also held innumerable meetings and have generated an impressive volume of recommendations. As a result of this activity, practically every facet of government operations in the member states has been touched by the GCC. Consequently, the secretariat has expanded

significantly in staffing, in activities, and in expertise. Numerous studies have been commissioned or completed, on topics ranging from power consumption to the introduction of a new mathematics curriculum.

1.3 Charter of the CGG : Objectives and Structure

At their first summit in Abu Dhabi in May 1981, the heads of the six Gulf states approved four major documents: the Charter of the Gulf Cooperation Council, the Bye-law of the Supreme Council, the Bye-law of the Ministerial Council and the Bye-law of the Commission for Settlement of Disputes. Less than a month later, the six governments approved the Joint Economic Agreement.

The Charter of the GCC consists of a preamble and 22 articles (see Appendix A). In the preamble, the signatories sought to highlight the common characteristics of the member states - this commonality was felt to constitute the cornerstone of the GCC. According to the preamble, the GCC Charter is based on the following factors: the existence of common bonds, special relations, similar regimes, and the Islamic religion among the member states, the belief that the peoples of the Gulf have a common destiny and a unity of purpose, and the conviction that cooperation and coordination among the member states would serve the long-term interests of the Arab nation. It is also in accordance with the Charter of the Arab League. The 22 articles are divided into 6 topics: (1) basic information (Articles 1,2,3,5), (2) objectives (Article 4), (3) structure (Article 5), (4) functions of the main bodies within the GCC (Articles 7-16 and 18), (5) privileges and immunities (Article 17), and (6) charter implementation, amendment, and deposition (Articles 19-22).

Articles 1,2,3 and 5 state that the name of the new regional organization is the Gulf Cooperation Council, that its headquarters shall be in Riyadh, that it shall hold meetings in any member state, and that it shall consist of six states:

Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman.

1.3.1 Objectives of the GCC

The basic objectives of the GCC are defined in Article 4 of the Charter.

They are:

- (1) To achieve cooperation among the member states in all fields as a prelude to unity.
- (2) To strengthen the limits of cooperation among the peoples of the member states in different fields.
- (3) To establish similar systems among the member states in all fields, including economics and finance, commerce, customs and communications, education and culture, social welfare and health, information and tourism, and legislation and administration.
- (4) To stimulate scientific and technological progress in the fields of industry, mineralogy, agriculture, and marine and animal resources. Also, to establish common projects, and to encourage the cooperation of the private sector for the common good of the peoples of the member states.

1.3.2 Structure of the GCC

In order to achieve the objectives stated in Article 4, the heads of state decided at their first meeting to establish the following five technical committees:

- (1) **Social and Economic Planning Committee:** The basic function of this committee is to develop areas of common action in social and economic planning, to coordinate the national development plans of the member states, and to devise future plans for social and economic coordination among the six states.
- (2) **Economic and Financial Cooperation Committee:** This committee is charged with four major responsibilities: currency and financial cooperation, the movement of capital and people and the practice of economic activity among the member states, commercial exchange, and transportation and

communication. The committee was given the following specific responsibilities:

- (a) To unify investment rules and regulations in an attempt to develop a cohesive investment policy.
 - (b) To coordinate currency and banking policies and to increase the coordination among currency and banking institutions, eventually creating a common Gulf currency.
 - (c) To coordinate foreign financial and currency policies, particularly as they pertain to regional and international economic and development aid.
 - (d) To establish new regulations that would guarantee citizens of all GCC states equal treatment in terms of freedom of movement, work and residency, freedom of property ownership and inheritances and freedom of economic activity.
 - (e) To attempt to remove hindrances blocking the free movement of resources, capital, and other means of production and to coordinate and unify customs duties and financial and commercial regulations so that citizens of any member state would be afforded the same treatment in any of the six states.
 - (f) To remove tariff barriers among the member states regarding national products and to attempt to create a unified customs levy among these states and between them and the outside world.
 - (g) To coordinate the export, import, and food-reserves policies of the member states.
 - (h) To create a collective negotiating power in the field of exports and imports.
 - (i) To cooperate in the field of sea, land and air transportation and communications and to coordinate the building of the necessary infrastructure (for example, ports, airports, roads, power and water stations).
- (3) **Industrial Cooperation Committee:** The responsibilities of this committee include the following:

- (a) To coordinate all industrial activity by proposing policies that would industrialize these states on a basis of complementary and mutual benefit.
- (b) To study the standardization of industrial legislation and systems among the member states.
- (c) To encourage local institutions to increase their industrial output and fill the needs of the member states.
- (d) To prepare procedures governing the importation of technology appropriate to the development needs of the member states.
- (e) To distribute industrial production among the member states by establishing complimentary industrial projects.
- (f) To establish unified programmes for vocational and industrial training.
- (4) **Oil Committee:** Composed of GCC ministers for foreign affairs, oil and finance, this committee is charged with two major responsibilities:
 - (a) To coordinate all aspects of policy planning for oil and petrochemicals, including oil production, refining, marketing, pricing and shipping, the production of natural gas and the development of energy resources.
 - (b) To establish a unified oil policy toward the outside world and international organizations.
- (5) **Social and Cultural Services Committee:** The major responsibilities of this committee is to define the common areas of activity in education, culture, health, labour and social welfare and to establish common policies in these areas.

The GCC Charter established three permanent bodies and one ad hoc commission (Article 6). They are the Supreme Council, the Ministerial Council and the Secretariat. The Commission for Settlement of Disputes, which can be instituted when necessary, is attached to the Supreme Council (Article 10, Section 1). The Commission is a recommending body only and operates at the pleasure of the Supreme Council (Article 10, Section 4).

Voting in both the Supreme Council and the Ministerial Council is based on unanimity on substantive issues and on a majority for procedural matters (Articles 9 and 13). The unanimity requirement is potentially crippling, since major resolutions can be vetoed by any member. It would therefore be very difficult for any substantive agreement to emerge in any area, from regional security to tariffs, if any state were in opposition. The Supreme Council meets regularly once a year, special sessions may be called if requested by any one member and seconded by another (Article 7).

The Supreme Council is the highest body in the GCC. It consists of the heads of the six member states. As the major policy making structure in the organisation, the Supreme Council is given ten specific responsibilities (Article 8).

- (1) To review matters of interest to the member states.
- (2) To establish major policy goals and broad policy outlines.
- (3) To review the recommendations, reports, studies and projects that are submitted by the Ministerial Council for approval.
- (4) To review the reports and studies that the Secretary-General is charged with preparing.
- (5) To approve the basis for dealing with other states and with international organizations.
- (6) To approve the Bye-Law of the Commission for Settlement of Disputes and to appoint its members.
- (7) To appoint the Secretary-General.
- (8) To amend the Charter of the GCC.
- (9) To approve the budget of the Secretariat-General.

Article 11 and 12 of the Charter discuss the formation and functions of the Ministerial Council. It consists of the foreign ministers of the six member states. The Council meets every three months, and its presidency rotates in an

alphabetical order of the member states (Article II). The Ministerial Council is charged with performing eleven major functions (Article 12):

- (1) To propose policies and prepare recommendations to further co-operation among the member states.
- (2) To encourage cooperation among the member states in all fields and to recommend related policies to the Supreme Council for approval.
- (3) To submit recommendations to the appropriate ministers for implementation.
- (4) To encourage cooperation among all segments within the member states, particularly the private sector, to expand cooperation among the member states' chambers of commerce and industry, and to facilitate the movement of indigenous workers among the member states.
- (5) To refer any issue pertaining to cooperation to one or more technical and/or specialised committees for further study.
- (6) To review any proposals related to amending the Charter and to refer such proposals to the Supreme Council for action.
- (7) To approve its own bye-law, as well as the bye-law of the Secretariat.
- (8) To appoint, upon the recommendation of the Secretary-General, the Assistant Secretaries-General for a renewable three-year term.
- (9) To approve periodic reports and regulations relating to financial, monetary, and administrative affairs proposed by the Secretary-General and to submit the budget of the Secretariat to the Supreme Council for action.
- (10) To arrange for the Supreme Council's meeting's and to prepare thier agendas.
- (11) To review matters referred by the Supreme Council.

The Secretariat is headed by a Secretary-General and sufficient staff to carry out the functions of the Council. The staff, who are appointed by the Secretary-General, must be citizens of the member states (Article 14).

As the chief administrator of the GCC, the Secretary-General performs

several functions, including the preparation of studies, reports, recommendations, budgets, administrative procedures, and any other tasks entrusted to him either by the Supreme Council or the Ministerial Council (Article 15). To date, the GCC has had only one Secretary-General, a citizen of Kuwait, who is presently serving a second three-year term (1990). As members of the Secretariat, the Secretary-General and his staff function as regional bureaucrats with the primary responsibility of furthering the interests of the Gulf Cooperation Council. They are not representatives of their individual countries. In the performance of their duties, they are not to be subject to influence or pressure from any member state. They are also pledged not to reveal any secrets that might damage the GCC, either during or after their tenure in office (Article 16).

The GCC, its bodies, official representatives and employees, including the Secretary-General and members of the Secretariat, are given the diplomatic privileges and immunities accorded to similar organizations under international law. The GCC has already drafted appropriate agreements between itself and the country where its headquarters are located (Article 17).

In addition to the Charter, the heads of the six Gulf states have approved bye-laws for the Supreme Council, the Ministerial Council, and the Commission for Settlement of Disputes. The bye-law of the Supreme Council, consisting of 19 articles, focuses on the nature of the Council, the conduct of the meetings, the agenda of meetings and voting. The bye-law further defines the responsibilities assigned to the Supreme Council under the Charter. The bye-laws of the Ministerial Council consists of 39 articles. Again, they focus on the internal procedures of meetings (agendas, voting, debate and resolutions), the appointment of technical committees and cooperation with the Secretary-General. The Ministerial Council lays the groundwork for the Supreme Council. The bye-laws of the Commission for Settlement of Disputes consist of 13 articles and focus on the structure, re-

sponsibilities, meetings and deliberations of the Commission. For example, the Commission is to be headquartered in Riyadh, Saudi Arabia. The jurisdiction of the Commission falls into two areas: disputes among member states and disputes pertaining to interpreting or implementing any articles of the GCC Charter (Article 3). Being ad hoc in nature, the Commission ceases to exist whenever it submits its recommendation on a specific dispute to the Supreme Council (Article 4).

1.4 Purpose and Methodology of Study

1.4.1 Purpose of Study

The study has the following purposes :-

1. To describe briefly the reasons for the existence of the Gulf Cooperation Council and summarise its structure and objectives.
2. To identify and throw light on the economic sectors in the region; agriculture, industry, services, external trade and migration and, specifically, their development over the last ten years.
3. To analyse the strategies and procedures of economic sectors and the role of government in their development.
4. To throw light on the role of the Gulf Cooperation Council in economic development and evaluate the cooperation among the Gulf states in each field.

1.4.2 Methodology of Study

The method followed in order to answer the thesis questions was:

- (a) To classify and abstract the data obtained from published and unpublished statistics and up-to-date surveys and fieldwork.
- (b) To compare, contrast and analyze the above for various years and by so doing,

put into their proper perspective and, where possible, answer the research questions asked.

This is a descriptive analytic study. The data collected was based on the following:

1. Most of the general data came from various government department publications as the statistical abstracts, and general reports on the Gulf states economy.
2. Books, reports, and studies; most books that have been written concerning the development of economic sectors in the Gulf states during the last fifteen years.
3. The researcher carried out a number of fieldwork trips to the Gulf states to find some answers to questions required by this study. The greatest value of these visits was the opportunity to visit many individual ministries in each state in order to collect all the statistics and information relating and useful to my study, times during which the greatest allocation of time was given to interviews with as broad a cross section of the government authorities, the banking community and businessmen as possible. A random sample of these groups was not possible since the universe occupied by them is difficult to define, but every effort was made to question all those senior officials of the government involved in any way with policies towards the economy, leaders of the banking groups and a selection of citizens engaged in private sector activities. These interviews focused on their views regarding the reason for the establishment of the GCC, the achievements of the Council, and the degree of cooperation or integration within the GCC Countries in the economies sectors.

The production of this thesis had four principal stages:-

1. A review of the literature concerning international economic integration which allowed the identification of the key issues that would be relevant to the GCC.

2. The collection of indicators of change in the GCC states from both official sources and a range of other bodies.

3. A programme of interviews with leading government officials in the GCC states and the GCC secretariat.

4. The evaluation of the information obtained in light of the theoretical and political expectations of the GCC.

Problems of the Study

The researcher and interviewee were both familiar with the subject and the data. However, one main problem was the lack of recent information. In addition most of the reports and data collections carried out on the Gulf states, were conducted for particular ministries or departments. As a result, most of these reports are unpublished and there is little indication of their existence. For example, reliable population statistics about the national and expatriate in the Gulf Arab states are difficult to come by. Despite sensitivity surrounding relative shares of national and non-national in the population because of the implied political exposure and economic dependence, considerable detailed demographic examination does exist in the Gulf states. Some Gulf countries, notably Kuwait, have amongst the best census-taking records outside the OECD. Census information is published and demographers have conducted extensive research on the basis of this data series. The UAE's performance at enumeration has also been good, culminating in the enumeration of December 1985. Elsewhere, census-taking has been of a lower priority. Saudi Arabia's census of 1974 has never been fully published, but is updated by sample household surveys for the use of planners. Qatar held a full enumeration in December 1985, but results have not been analysed yet.

Bahrain's population has not been fully enumeration since 1981. The Sultanate of Oman has not held a census, but maintains a rolling socio-demographic survey for utilisation by planners. These various sources have been drawn upon by the United Nation Economic and Social Commission for West Asia (ESCWA), to produce a rationalised picture of the recent (1984, 1985, 1986) demography of the Gulf. The tracking down of such reports, therefore, involved the researcher in considerable additional work.

CHAPTER TWO

Physical and Human Resources

2.1 Geographical Features

The six Arab Gulf States included in this study cover an important geographic and strategic area. The area extends to the Arabian Gulf in the East, the Shatt Al-Arab in the North, the Red Sea in the West and the Arabian Sea and Indian Ocean in the South. The Gulf States in this study are geographically contiguous. The Gulf region is very rich in oil resources and its geographical location makes it an international artery for petroleum. Oil has played the predominant role in shaping the Gulf States political and social features.

These six states, if considered individually, have only a small area, but taken together, the six states cover a reasonably sized territory which can support a significant economic structure. The six Gulf States together cover an area of 2,976 thousand square kilometres, which represents 18.3 per cent of the total Arab area (13,624 thousand square kilometres). The density of population in the Gulf States taken together is five persons per square kilometre, and the total population of the six states is about 15.79 million in 1986. Saudi Arabia has the largest population and area (fig 2.1) and Kuwait follows in population size, but Oman is the second largest in area, although it comes third when ranked by population size.

In Bahrain, the density of population is high because of its large population size and small area, and it has the highest density of population per square kilometre among the Gulf States. Its density is one of the highest in the Arab World, and contrasts with a population density of about four persons per square kilometre in Saudi Arabia and Oman, and about ten persons per square kilometre in Qatar and the United Arab Emirates. Only Kuwait approaches Bahrain in the

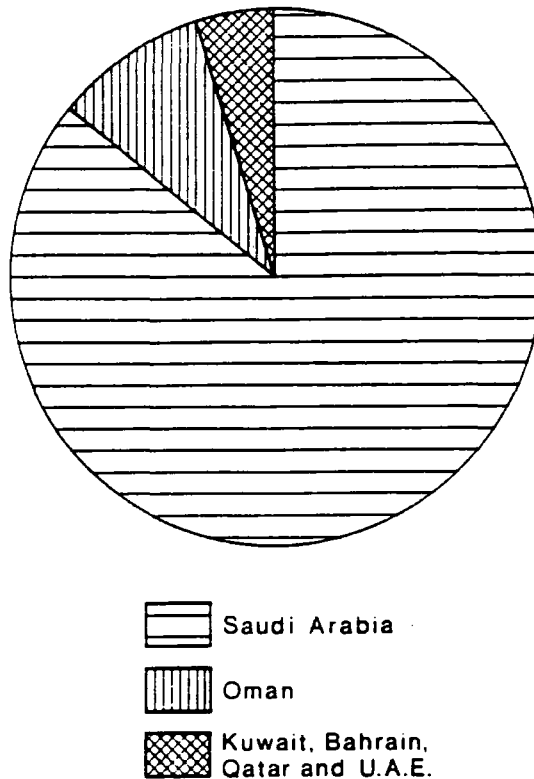


Figure 2.1 Relative Size of the Arab Gulf States by Area

density of its population at about 80 persons per square kilometre.

These Gulf States together form a coastal region of the Arabian Peninsula.

This coastal region has been described by Professor W.B. Fisher (Arikat,H.1987)

as follows:

The coastal region is everywhere below 200 in altitude and consists for the greater part of an undulating plain, diversified very occasionally by low hills, often anticlinal. Much of the surface is sand or gravel covered, and some drifting sand can be traced by its lithology to the regions of origin within various areas of inner Arabia. From this interior reservoir sand is carried by the frequent strong winds towards the east, where it may accumulate in mobile dunes, or as a sheet. Even hillsides may be thinly covered by sand blown from elsewhere. In other areas lie flatter zones of gravel, diversified by shallow Wadi beds. These Wadis, like the plains, may have local deposits of silt or alluviums. The coastline being one of oscillation (with the current phase one of gentle and irregular subsidence), is fairly shallow, and fringed by extensive coral reefs. Lagoons and spits are also frequent features, with intricate creeks and salt flats. In some of the localities it is difficult to distinguish sea from land, with a high tidal amplitude through tortuous channels and winding creeks further adding to the difficulty. Sebkhass (saltmarsh), some fed by sea, other by the evaporational water that seeps to the surface from underground sources, are another

prominent feature. The sebkhas are effective factors in isolating one stretch of coast from another.”

This coastal region had one main source of income before the discovery of oil resources. Most of these Gulf States used to depend upon pearl fishing, but especially Kuwait, Bahrain, Qatar and the United Arab Emirates. The pearl industry was pivotal to their economy at that time and the sea was the main source of income.

It is appropriate to consider these six states individually from a geographical point of view. Bahrain consists of a group of islands in the Arabian Gulf midway between Qatar and Saudi Arabia. Kuwait is located in the north-eastern corner of the Arabian peninsula, bounded on the north and west by Iraq, on the south by Saudi Arabia and on the east by the Arabian Gulf. Oman is in the south-eastern part of the Arabian peninsula and is bounded by the Arabian Sea to the south, with a coastline stretching almost 1,000 miles and to the south-west, Oman borders Yemen. The United Arab Emirates consists of seven States, formerly known as the Trucial States before they united in 1971, located in the eastern Arabian peninsula, bounded on the north by the Arabian Gulf. The Emirates are composed of Abu Dhabi, Dubai, Sharjah, Ajman, Umm al- Qaiwain, Ras al-Khaimah and Fujairah. Abu Dhabi is the largest of these Emirates, representing about 87 percent of the total area of the United Arab Emirates, followed by Dubai which represents only five percent of the total area. Saudi Arabia occupies about four-fifths of the Arabian peninsula. It is bounded on the north by Jordan, Iraq and Kuwait, on the south by Yemen, on the west by Red Sea and the Gulf of Aqaba and on the east by Oman, Qatar, and the United Arab Emirates, and the Arabian Gulf.

2.2 Population Size and Growth Rate

The six Gulf States had an estimated total population about 15.79 million in 1986 spread over an area comprising some 2,487 thousand square kilometres.

It ranks very highly in population density per Km compared internationally with developed countries in Europe (Belgium 322, Netherlands 412). At the opposite extreme there are other countries, such as United Arab Emirates and Oman, which are very sparsely populated.

The history of population growth for the countries may be divided into two periods: the period prior to oil and the period after the discovery of oil. In the first period, the pre-oil period, there are no accurate figures on growth rates available except that a figure for 1941-1950 showed the annual growth rate for that period was 2.5 percent. For these six Gulf States data is available for growth rates of their population since the discovery of oil. The six Gulf States are characterised by a high rate of population growth. The annual population growth rates in these states are due to the tremendous migratory movement from other Arab countries and Asian countries, attracting large groups of expatriates to work for relatively high pay. In addition to this, an important factor in the high rate of population growth is a decline in the death rate among the newly born due to the developments in the health sector. The high fertility and declining mortality rates were responsible for the extremely high growth rate of the region's national population, averaging around 3.5 percent for the period 1975-1985.

2.3 Population by Age, Structure and Sex

The social aspects of a nation's population include its structure or age and sex characteristics, as well as its composition. Population distribution by age has important implications for education, health and other social services, as well as for the labour force. The distribution by age group clearly discloses the extreme youth of the population in most of the Gulf States. In Saudi Arabia about 45.1 percent are aged between 0-14 years, the percentage for Kuwait, Oman and Bahrain is 41.9 percent, 41.7 percent and 39.5 percent respectively. To take an example of a population in a developed country, Sweden, the proportion of the age group 0-14 years is as low as 20 percent. Only Qatar and the UAE compare

with this at about 28.6 and 28.1 percent respectively.(Arikat.H.1987).

The population of active age (comprising the age group 15-59) is quite sizeable too. For all Gulf countries, more than 50 percent of the population belong to the active age group - in Saudi Arabia, Kuwait, Oman, Bahrain, Qatar and the UAE the percentage is 50.2, 55.6, 54.7, 57.4, 68.8 and 69.3 respectively, and in Qatar and the UAE almost two-thirds of the population are in the active age group. However, levels of economic activity amongst this age group are relatively low. This is due to the fact that women in these states do not work on a large scale except in a limited number of professions: teaching, nursing, and in certain women's organizations. There is also the effect of recent expansion of secondary and university education in the Gulf region, which has been to hold within the education system boys who would otherwise have entered the work force at the age of eighteen.

Naturally, population in the age group 60 or more is a tiny proportion of the total, and nowhere exceeds 4.7 percent (Saudi Arabia), with the lowest proportion of 2.5 percent in Kuwait, followed by Qatar and the UAE which have figures of 2.6 percent.

There is a higher percentage of males than females in the Gulf, with around 60 percent of the region's total population being males. Most of the expatriates, especially the larger number of unskilled labour, are single men whose families do not accompany them during their stay in the region. The ratio of males in the total population differs from one country to another. It is as high as 68 percent in the UAE, 65 percent in Qatar, 60 percent in Saudi Arabia, while it is lower in Kuwait and Oman, at around 57 percent. Nationals exhibit a more balanced population structure with the percentage of males close to a world wide average of 50 percent.

2.4 Proportion of Economically Active Population by Economic Sector

This section deals with the distribution of the economically active population

according to major economic sectors (for more detailed discussion see chapter 3-5 below). For 1980, the figures in these sectors show that most of the employed population of the Gulf States (over 50 percent) was engaged in services. The highest proportion engaged in services is in Kuwait, 73 percent, and in Qatar, 68 percent, while in the rest of the Gulf States, Bahrain, Saudi Arabia and the U.A.E. it is 55 percent, 55 percent and 50 percent respectively (table 2.1). Oman has the lowest share of economically active population in the services sector.

The agricultural sector seems to be small in Saudi Arabia, Kuwait, Bahrain, Qatar and the U.A.E. with 24, 2, 3, 3 and 2 percent of the population respectively, largely due to limited agricultural potential in the Gulf region. However, Oman has over 50 percent of its workers in this sector.

The industrial sector takes second position in most of the Gulf States, with the higher proportion belonging to the U.A.E. (about 48 percent) followed by Bahrain with about 39 percent. In the other four Gulf States, Saudi Arabia, Kuwait, Oman, and Qatar, the economically active population in the industrial sector does not exceed 30 percent.

The total size of the labour force in the six GCC states was estimated at around 5.5 million in 1986, 62 percent of which were believed to be expatriates (Table 2.1).

Nationals predominate in the traditional sectors of the economy, namely agriculture and fishing, especially in Saudi Arabia and Oman where close to 24 percent and 18 percent respectively of the national workforce are found. The proportion of nationals engaged in the community and personal services sector has also been high ranging from around 75 percent of the total national workforce in Kuwait and UAE, to 62 percent in Qatar, 44 percent in Bahrain and 32 percent in Saudi Arabia. This sector is especially important as it includes public sector jobs where employment for nationals are almost guaranteed and personal business where many nationals are self employed (e.g. drivers, guards, as well as private business).

Table 2.1 Distribution of Economically Active Population by Sector

(The Year 1986; Values in Percentage)

Country	Saudi Arabia			Kuwait			U.A.E			Oman			Bahrain			Qatar		
	Na.	Non.	T.	Na.	Non.	T.	Na.	Non.	T.	Na.	Non.	T.	Na.	Non.	T.	Na.	Non.	T.
Sector	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Agriculture & Fishing	23.5	4.3	14.3	2.1	1.9	1.9	5.9	4.9	5.0	18.3	3.0	23.3	3.4	0.9	2.0	0.1	0.2	0.2
Industry																		
Mining	2.4	0.7	1.6	2.0	0.8	1.1	1.7	2.1	2.0	-	-	2.1	6.1	1.4	3.5	4.9	3.1	3.3
Manufacturing	6.5	11.9	10.0	3.8	8.4	7.5	1.1	6.9	6.4	-	-	1.1	6.5	8.9	7.8	2.4	15.2	13.8
Utilities	4.6	2.1	3.4	1.2	1.1	1.1	2.7	1.8	1.9	-	-	0.1	3.2	1.3	2.1	19.8	2.8	4.6
Construction																		
Services	9.5	28.5	18.6	1.1	22.5	18.3	1.6	27.0	24.8	-	-	27.5	5.0	33.7	21.0	1.0	20.1	18.1
Trade	14.0*	16.9*	12.3	4.9	12.8	11.3	7.0	14.3	13.6	-	-	26.4	9.8	16.4	13.5	8.1	16.3	15.5
Communication	7.9	5.8	6.9	6.0	5.4	5.5	3.9	7.7	7.4	-	-	1.3	16.1	4.1	9.4	0.5	1.4	3.1
Finance & Bus. Commu.	-	-	3.1	3.3	3.1	3.1	2.0	3.2	3.1	-	-	1.7	6.3	2.5	4.2	0.9	4.2	3.9
Personal	31.6	27.8	29.8	75.6	44.0	50.1	74.0	32.1	35.7	-	-	16.5	43.6	30.8	36.5	62.3	34.7	37.5
Total	100	100	100	100	100	100	100	100	100	-	-	-	100	100	100	100	100	100
Labour Force @	1575	1457	3032	137	574	712	78	812	891	167	300	467	-	-	-	20	175	195

Note: Na= National; Non.=Non-National; T=Total; * Include Finance and Business; and @ Values in 000

Source: Compiled from United Nation ESCWA.Demographic and Related Socio-Economic Data Sheets, 1987.

The concentration of expatriates is most evident in the manufacturing, construction and trade sectors. The majority of workers in manufacturing are non-nationals, the percentage is lower in Bahrain, and Saudi Arabia (64 percent and 73 percent respectively), but higher in Kuwait (90 percent), UAE (91 percent) and Qatar (98 percent). The dependence on expatriates is even more pronounced in the construction sector, where it is estimated that in 1986 more than 85 percent of all construction workers in the Gulf were expatriates. Non-nationals also constitute a majority in the trade sectors of the various Gulf states, reaching as high as 96 percent in the UAE and Qatar, 92 percent in Kuwait and 55 percent in Bahrain (table 2.1).

Nationals in Bahrain and Saudi Arabia have a more balanced distribution by economic sector than in the other Gulf States. The dominance of expatriates is apparent only in construction and to a lesser degree in manufacturing and trade. Nationals of the two countries constitute a majority in the mining sector 77 percent and 79 percent respectively, in the utilities sectors 68 percent and 70 percent respectively, in community and personal sectors 54 percent and 55 percent respectively, and 67 percent and 60 percent respectively in transport and communication sectors.

Considering the economically active population by occupation, the Gulf countries' national labour force has been concentrated in three main occupational categories: "clerical workers", "service workers" and "production workers". The lowest percentage of nationals is found in such occupational categories as "managerial workers", "professional and technical workers" and, with the exception of Saudi Arabia and Oman, in "agricultural workers" (GIB, 1988). The high percentage of clerical workers, which ranged from 27 percent of total national workforce in Kuwait to 23 percent in the UAE, 22 percent in Bahrain, 22 percent in Qatar and 9 percent in Saudi Arabia reflects the expansion of government sectors giving priority to the recruitment of nationals. There has been a noticeable rise in

the percentage of nationals working in professional occupations over the period 1975-1985. The percentage has also been higher for nationals working in managerial, services and sales occupations, reflecting a maturing occupational structure of Gulf labour force.

2.5 Literate Population and Literacy Rate

Literacy is a good indicator of the degree of development in a country. In the Arabian Gulf States, the literacy rate is very low compared with the industrialised countries in which the literacy rate exceeds 97 percent. The highest literacy rate in the Gulf States to be in Kuwait at 68 percent, next comes U.A.E. with 66 percent, Qatar with 59 percent, Bahrain 50 percent, while in Saudi Arabia it is only 34 percent and Oman only 38 percent.

The high rates of literacy in some of the Gulf States like Kuwait and the U.A.E. are because these States have experienced modern education. However, the development of human resources in the Arab Gulf region is no longer constrained financially. Saudi Arabia and the other Gulf States have devoted themselves heavily to the development of their human resources in order to improve their literacy rates.

Literacy rates for nationals have been on the rise in the various Gulf countries. In 1986, over 75 percent of national men is were literate compared to around 55 percent for women. Female illiteracy rates have decreased considerably with the advance of education for girls in the various Gulf states. However, the relatively high female illiteracy rates are inflated by the lack of education in the older age groups.

2.6 Geographical Distribution Of Population

2.6.1 Kuwait

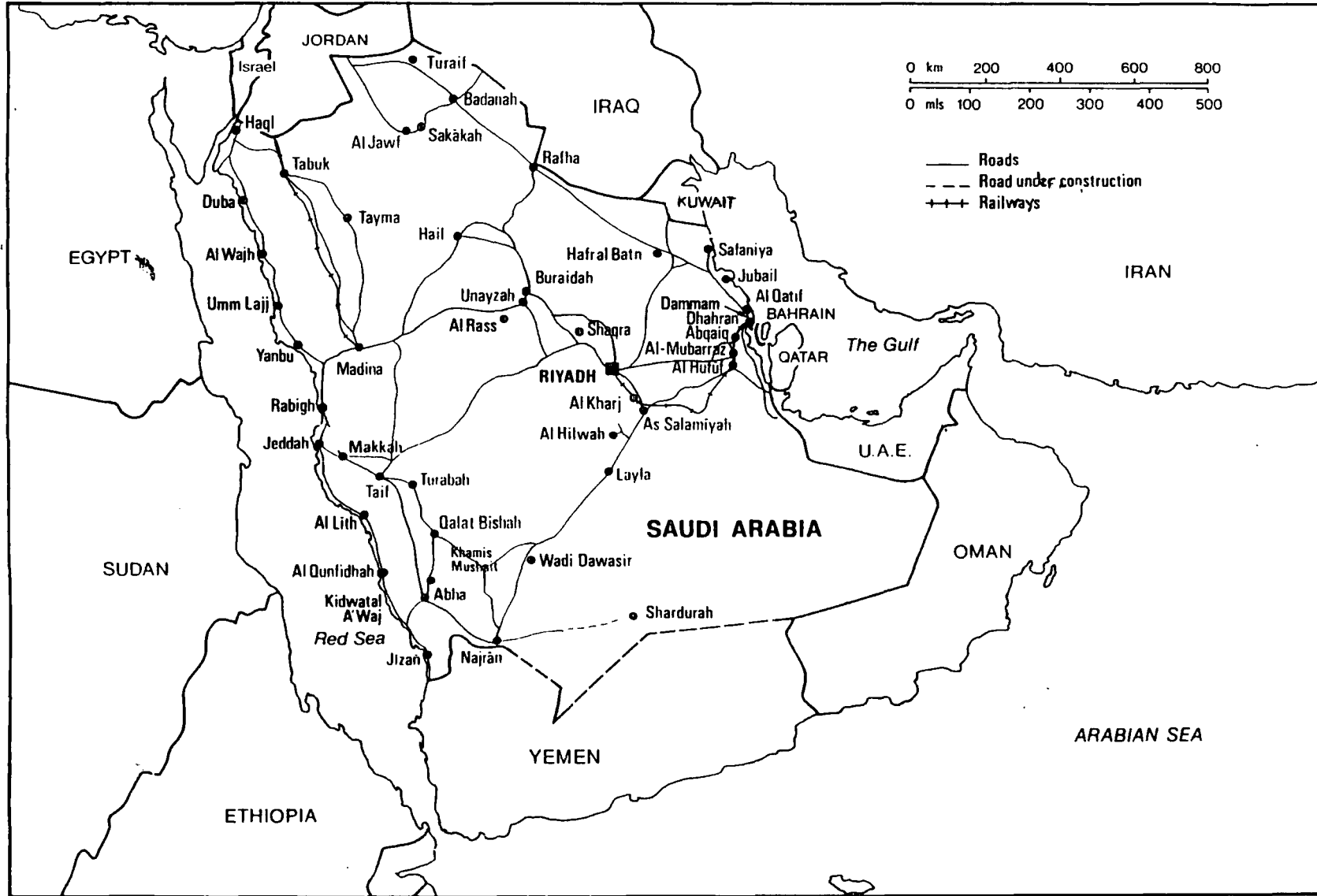
Judging by available indication, Kuwait has a relatively high total population concentration. In a previous study of the degree and extent of population

distribution in Kuwait, the density of population based on 1970, 1975, 1980, 1985 census results was analysed (Al-Sabah, 1988). The pattern of densities was traced through a series of maps which show the distribution and population of the country in each year. It was shown that the density has increased from 44 persons per square kilometre in 1970 to about 59 in 1975, 80 in 1980 and to 100 persons in 1985.

Administratively, Kuwait is divided into four governments, the capital, Hawalli, Ahmad and Jahra. These governments are subdivided into a number of localities ranging from 5 in Jahra to 25 in Hawalli. The total number of localities according to the 1985 census is 58.

In 1985, the density of population in the capital and Hawalli governorates was 1,707 and 2,638 per square kilometre, respectively, while that in the Ahmadi governorate was 50 and in the Jahra governorate only 25. The localities vary in population size and the density in some was as high as 15,000 to 20,000 persons per square kilometre (figure 2.2). Some of the low-density localities in 1980 have been shifted by larger ones in 1985. A major reason was the removal of Al-Ashish dwelling area (two main localities, namely Al-shedadiyah and Sahiyad al-awazim) and redistribution of their inhabitants into new planned areas in the Hawalli and Jahra governorates. These two localities contain temporary dwellings and it is possible that some of them were formerly inhabited by Bedouins who moved into government housing. However, since social and economic development had to take place in certain spatial nodes, and required settled population, nomadism was considered as a negative component in the ecological structure, and therefore had to be abolished. In this connection several actions were taken by the authorities, all of which had a direct impact on the urban patterns and urban structure. The majority of non-Kuwaitis live in the immediate vicinity of Kuwait City: in the Jahra governorate, where 31.4 percent of all Kuwaiti nationals lived in 1985, they are in the majority, comprising 76.4 percent of the governorate's population.

Saudi Arabia



30

Figure 2.2: Location of Both Cities and Roads in the G.C.C. Countries.

Figure 2.2: Continued

Oman

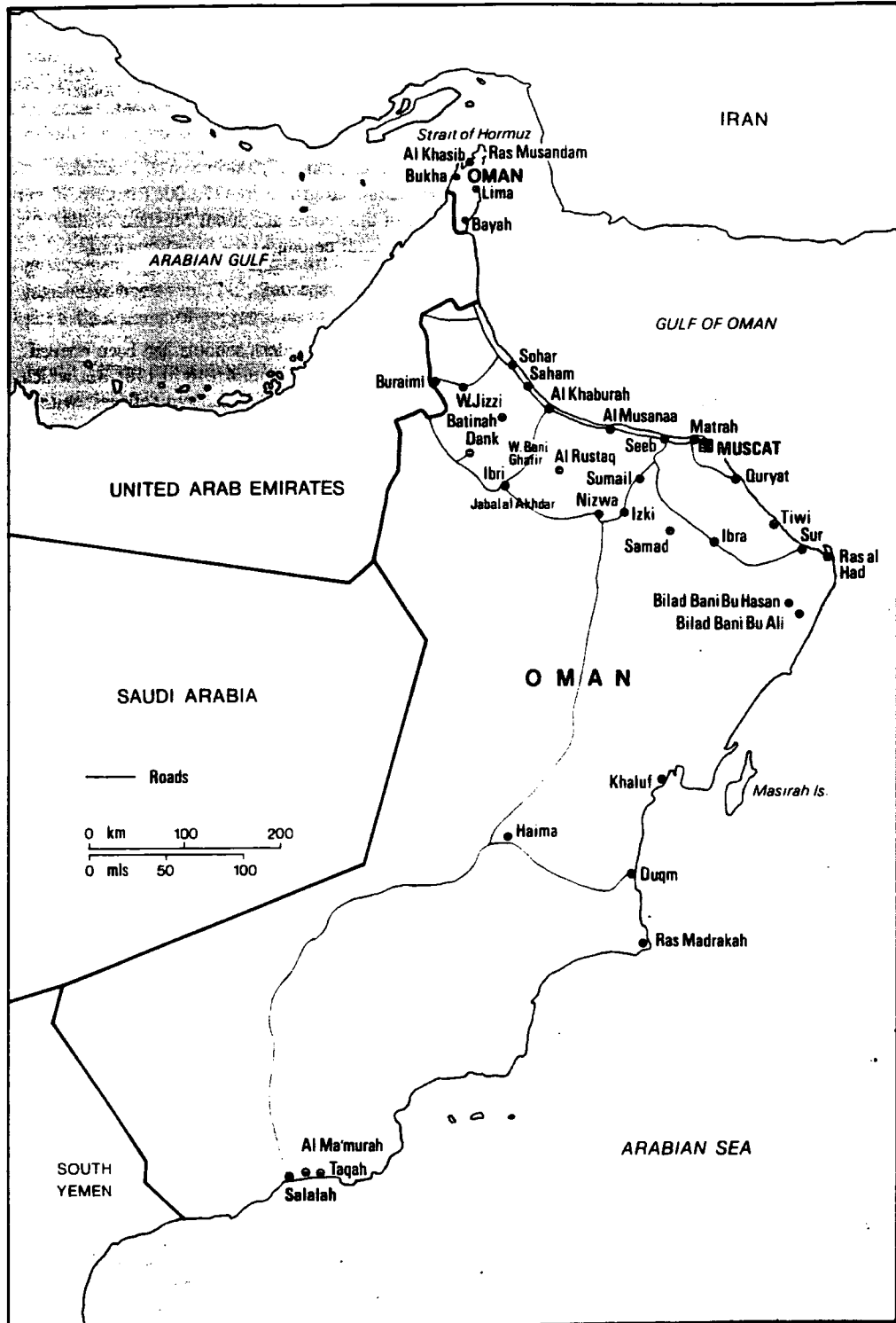
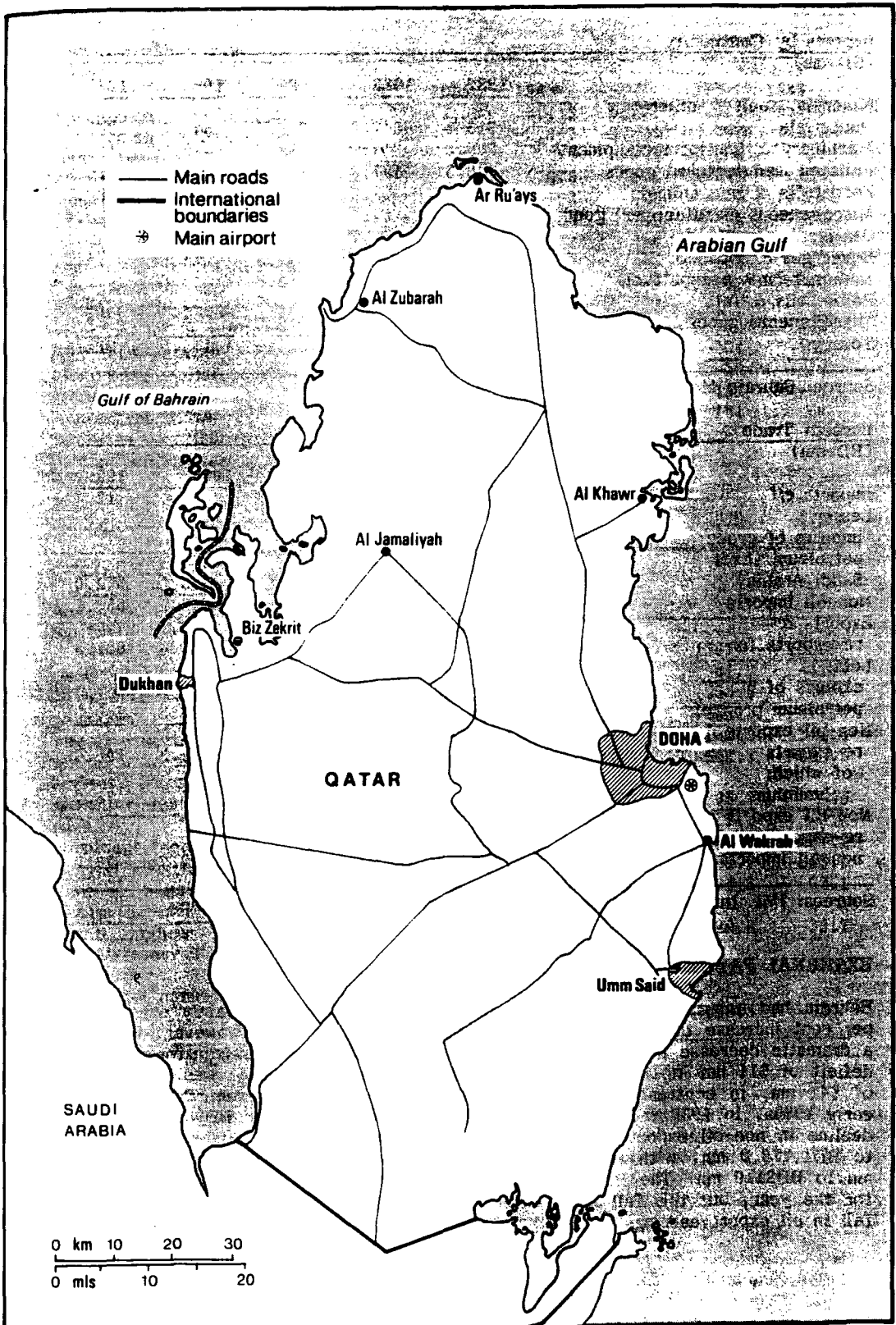


Figure 2.2: Continued

Qatar



Kuwait

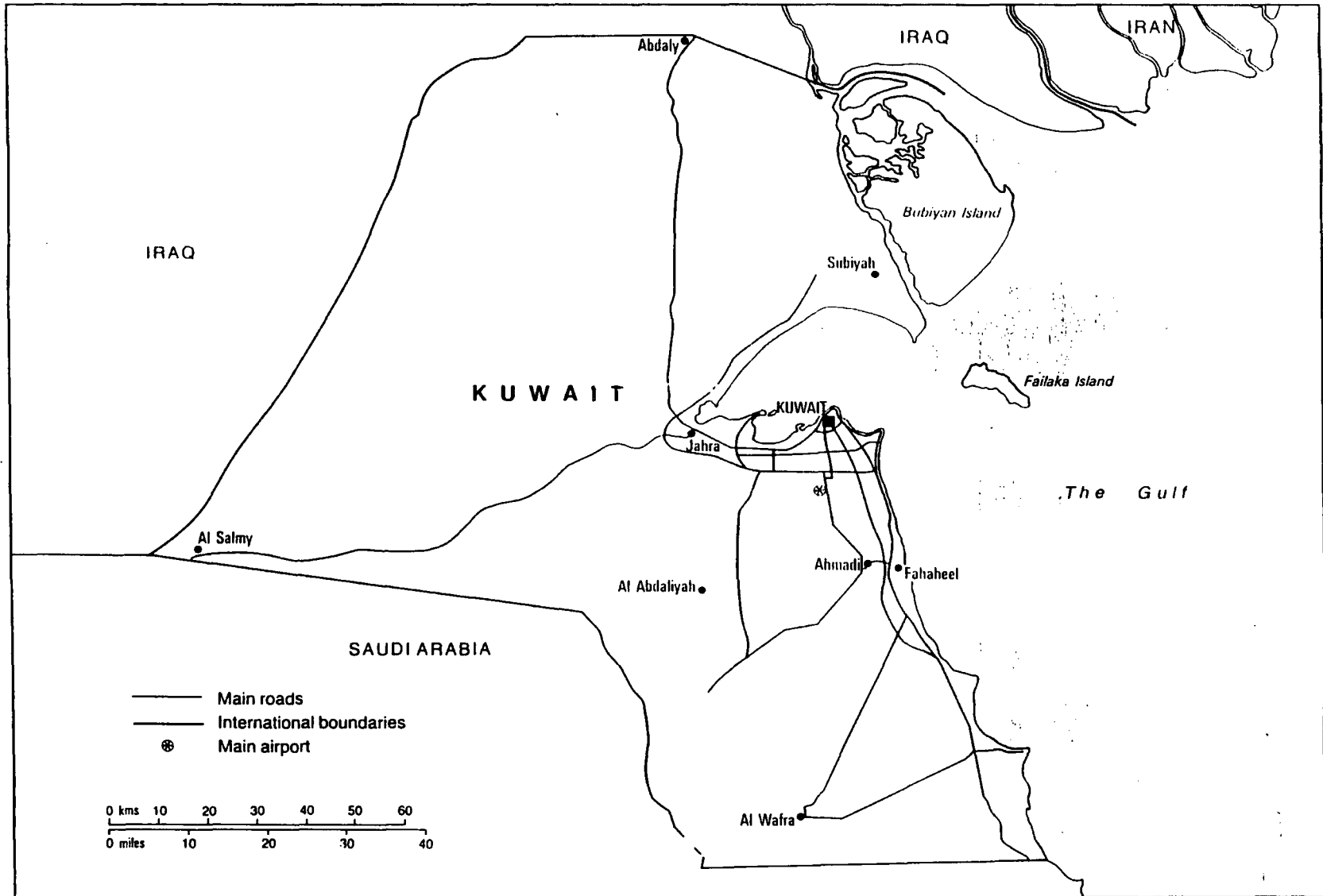
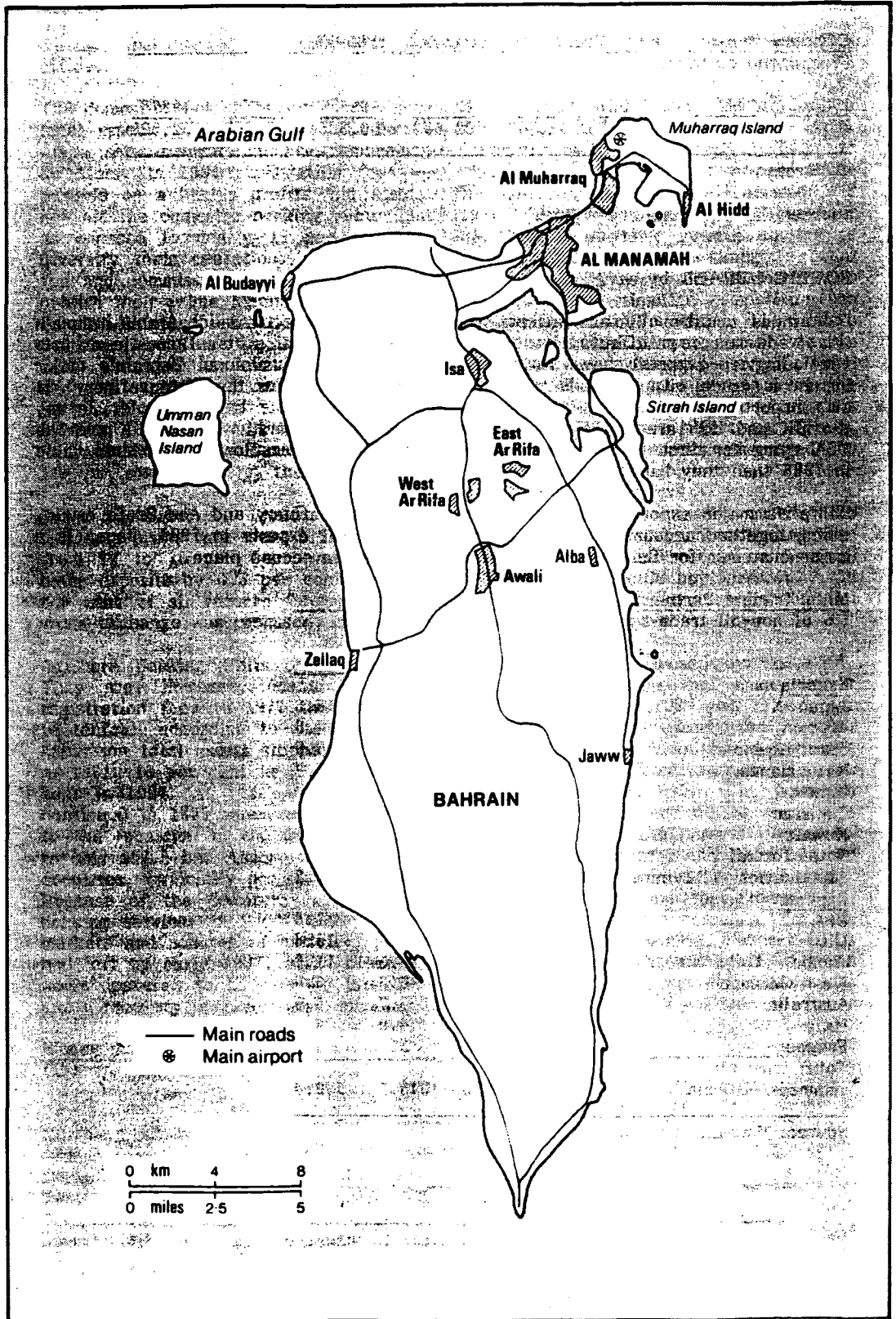


Figure 2.2: Continued

Bahrain



United Arab Emirates

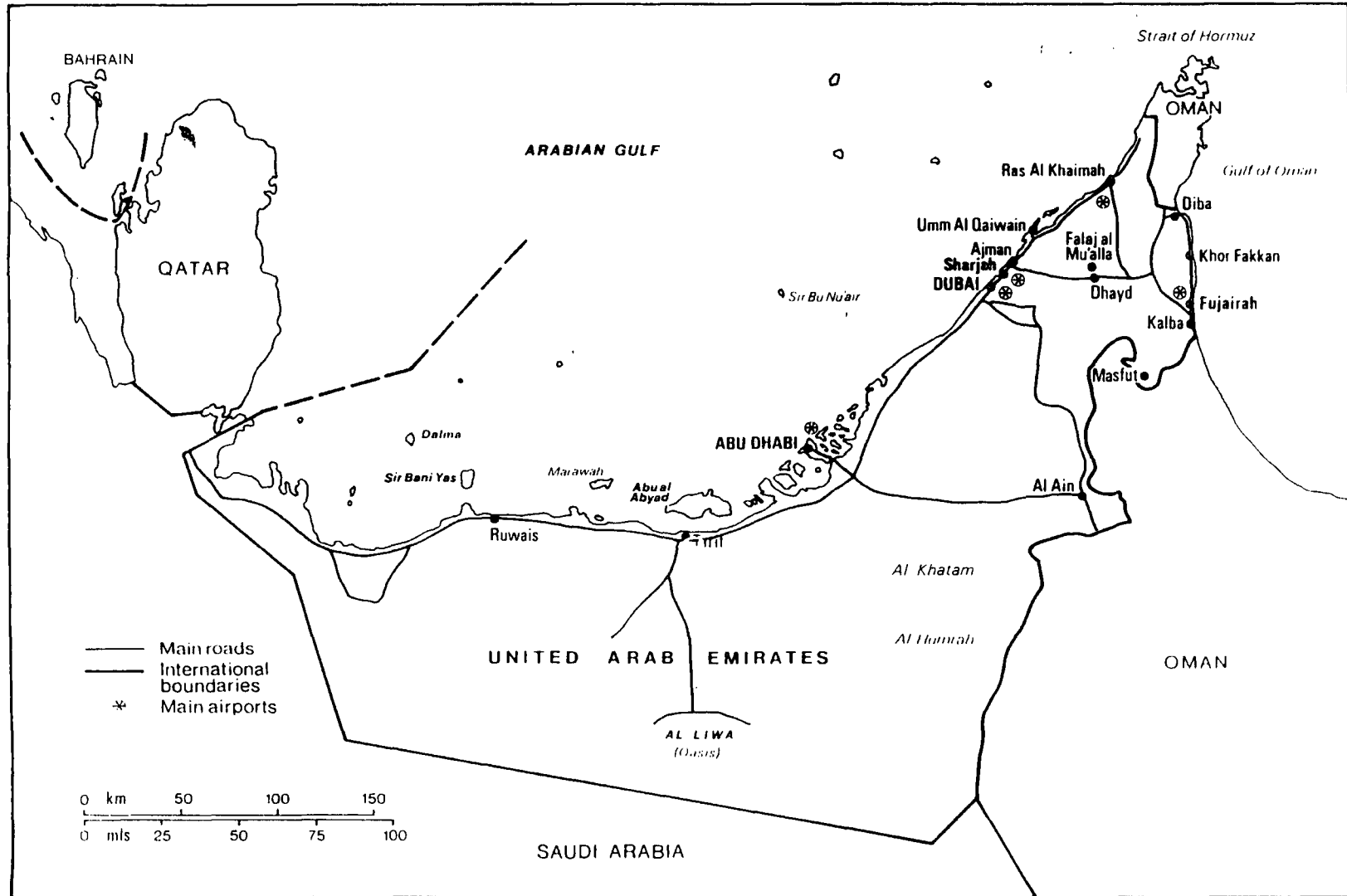


Figure 2.2: Continued

Hawalli is the main dormitory town for foreign workers: it is home for 67.5 percent of all non-Kuwaitis in the country, and they comprise 72.6 percent of the governorate's population. The population is relatively young - 58.3 percent are under 25 years old and highly urbanised, with 91 percent of the population living in urban areas in 1982.

2.6.2 Oman

The resident national population was estimated at 816,000 in 1986 (Unes-cuar), mainly concentrated on the Batinah, in the Hajar valleys, round the capital and in the Southern part of Dhofar. In addition, the 1986 immigrant population was estimated at around 494,000, bringing the total population to around 1.31 mn in that year. Mid-1988 estimates put the total population at 1.33 mn with 64 percent accounted for by nationals. The Muscat-Matrah-Seeb area has grown rapidly and is now inhabited by over 350,000 persons. Other towns of importance are Salalah in Dhofar-Sur in the extreme east, Sohar in the Batinah, north of Muscat, and Nizwa in the interior. In the Muscat-Matlah area there are substantial minorities of Indians, Pakistanis and Baluchis, providing skilled workers and professionals, and some Europeans. In all, non-nationals in 1987 made up the majority of the population in the capital area. Indian and Pakistani immigrants have penetrated into even the smallest mountain villages.

2.6.3 Bahrain

About 66 percent of the population are Bahraini, the rest are expatriates mainly from the Indian sub-continent, Iran, Oman and the Far East. The population was estimated at 457,000 in 1989, and average population growth has been 3.3 percent per year since 1979. 34 percent of the total population is under the age of 15.

Bahrain consists of 33 islands in all, but over half the population lives in the capital, Manama, on the main island, and in Muharraq, the second island, which

is linked to Manama by a causeway. Plans to build a second causeway linking Manama and Muharraq are being implemented.

2.6.4 Qatar

The population of Qatar grew from some 70,000 in the late 1960s to 260,000 in 1980, and is currently about 300,000. The indigenous Qatari population numbers around 84,000, equivalent to 28 percent of the total population. The majority of immigrants, who have moved to Qatar over the past decade, are from the Indian subcontinent, the Arab world and increasingly, the Far East and South East Asia. In the early 1980s over 50 percent of the immigrant population was Pakistani, but the proportion may have changed since 1983, when an estimated 60,000 expatriates left the country in a single year. It is estimated that almost 50 percent of the population is under 15 years of age.

2.6.5 United Arab Emirates

Two outstanding aspects of the UAE's population are the preponderance of foreigners and the preponderance of males. The total population increased by 86 percent between 1975 and 1980, as a result of the massive influx of immigrant workers after the 1973-74 oil boom. Many expatriates left when the recession set in during 1982-83 but the census in 1985 found a population of 1.62 mn. (Compared with 1.04 mn in 1980), some 68 percent of which was male according to UN statistics published in 1987.

The total area of the federation is officially about 83,600 Km², or 77,700 Km² excluding islands. Abu Dhabi, the westernmost emirate, is by far the largest with a coastline of 480 Km stretching from the base of the Qatar peninsula in the west to Dubai in the east. This emirate includes a number of islands, of which the most important economically are Abu Dhabi island itself, Das, Sadiyat, Umm al-Nar and Zirku. Abu Dhabi is tribally the most complex of the emirates, dominated by the Bani Yas tribe of which the Al-Bu Falah is the most important

section, including the ruling Al-Nahayan family. Dubai, essentially a city state, was founded in 1833 by a breakaway group, the Al-Bu Falastiah, to which the ruling al-Maktum family belongs. Dubai occupies about 70 Km of coast, extends inland for approximately the same distance and is likewise mainly desert. Sharjah, the third largest emirate, is made up of areas on both sides of the Ras Musandam peninsula and in the interior. About three quarters of this emirate's population live in Sharjah city, only 14 Km north of Dubai. Ras al-Khaimah, the next in size with a coastline of 65 Km, is the most northerly emirate of the UAE on the west side of the Musandam peninsula. Next comes Fujairah, which consists of coastal and other areas on the east side of the Musandam peninsula and is the only state with no territory on the west side. Umm al-Qaiwain consists mainly of a town of that name, situated on a small coastal strip about 30 Km long and extending inland about 50 Km. Ajman, the smallest emirate, consists of Ajman town on the coast and some territory in the interior which possesses water.

2.6.6 Saudi Arabia

Saudi Arabia covers about four fifths of the Arabian peninsula and has an estimated area of 2.15 mn Km². The country is divided into four regions: Hejaz (north west), Asir (south west), Nejd (central plateau) and Al-Hasa (known in English as the Eastern Province). The main cities of Saudi Arabia (with 1974 census populations in brackets) are Riyadh, the administrative capital (666,840), Jeddah, the main business centre (561,104), Makkah, the religious capital (366,801), Taif (204,857), Madinah (198,186), Dammam (127,844), Hofuf (101,271), Tabuk (74,825), Buraida (69,940), Al-Mubarraz (54,375), Khamis Muzhayt(49,581), Al-Khobar (48,817), Najram (47,501), Hail (40,502), Jizan (32,812) and Abha (30,150). Urban growth rates maintained a phenomenal pace throughout the 1960s and 1970s, between 1970 and 1975 the urban population of the region grew at an average of 5.2 percent per annum, while in the last decade smaller Saudi towns like Taif, Madinah and Hoful have more than doubled in size. Satellite towns have

sprung up around the main urban centres, and the Saudi authorities have had to tackle the social implications and administrative difficulties of such an urbanisation boom. Even so, Saudi academic estimates maintain that 50 percent of the population remains outside urban centres, 20 percent still living as nomads.

CHAPTER THREE

Agricultural Development in GCC Countries

3.1 Introduction

The GCC Countries have mounted an aggressive campaign to improve their agricultural sector, which so far has played a limited role in the region's economy. The contribution of this sector to gross domestic product is still very low, ranging from 4 per cent in Oman to 2.5 percent in Saudi Arabia and to less than 0.04 percent in Qatar. The reason for such a marginal role include deficiency in the soil, scarcity of irrigation water, climatic conditions of the desert (including low annual rainfall) and the limited supply of manpower trained in agriculture. Despite these limitations, efforts are now being intensified to improve agricultural performance and cultivate a new image for the agricultural sectors.

Agricultural self-sufficiency is continuously being called for at all levels in the various GCC countries. A recent study by the Federation of Gulf Chambers of Commerce, Industry and Agriculture (1987) warns of a serious shortage of food in the Gulf region if no immediate measures are taken to achieve self-sufficiency. The study recommends reclamation of additional land, encouragement and incentives to the private sector, increased use of advanced scientific methods to deal with the region's harsh climate, and establishment of local fertilizer and insecticide industries. The study expects that by the end of the century, the countries of the region would have achieved, as a group, self-sufficiency in wheat, maize, poultry and other various agricultural and dairy products.

3.2 QATAR

Qatar is a peninsula covering some 11,437 square kilometres. The land is flat and arid, with salt flats and sand dunes in the south but some natural veg-

etation in the north. Although there is no surface water, wells and the existence of silt and sand depressions have permitted a remarkable level of agricultural developments. Studies show that the amount of arable land may total as much as 28,000 ha, of which about 7,000 ha are already cultivated. All agricultural land is owned by the government which is keen to encourage agricultural production. Although the number of small farms increased from 338 in 1975 to about 500 in 1985, most farmers are absentee land lords and Qatari agriculture is mainly sustained by the work of immigrants. According to a study by the Arab Organisation for Agricultural Development (1986), Qataris are unwilling to invest much in agriculture, despite government incentives.

Developing the agriculture in Qatar is now one of the principal priorities of the government. Modern methods and techniques are being used and new agricultural technologies have been introduced with a view to rationalizing use of water resources. These intensive efforts rely on using modern agricultural machinery and equipment and fertilizers. Agricultural plans have also necessitated expanding the country's cultivable land areas and depending upon glasshouse cultivation, where possible.

3.2.1 Crop Production:

Table 3.1 summaries recent trends in the production of the major crops. The general expansion means that Qatar is now 70 percent self-sufficient in summer vegetables and more than 40 percent in winter vegetables. Cereal production is increasing but is still minimal, as cereals form 50 per cent of the Qatari diet. Reliance on food imports is high. These rose from QR 614 mn in 1982 to a record of QR 792 mn in 1984, before falling to QR 706 mn in 1987 due partly to a reduction in the expatriate work force.

3.2.2 Meat, Fish and Related Production

Table 3.1: Production, Area and Yield of Different Crops,(Tons)

Crops	1982	1984	1986	1987
Cereals:	1368	1027	1977	3020
Vegt. & other crops	17879	16539	19195	19370
Fruit and dates	9534	8648	7692	8021
Forage	42003	47568	55628	69991

Sources: (1) Annual Statistical Abstract 1985, 1986, 1987. (2) Ministry of Industry and Agriculture.

The output of red meat has increased in the past decade, though at rate from 923 tons in 1982 to 1,500 tons in 1987.

There has also been a considerable increase in the number of livestock, particularly sheeps, goats and camels. In Qatar the sheep is the dominant animal and the number of cows is falling.

Egg production averages 1mn a year, enough to meet 80 per cent of local demand, while the production of chickens totals 10 mn per year. There are plans to treble output of both. Dairy production has risen impressively, from only 6,208 tons in 1982 to 18,727 tons in 1987.

The Qatar National Fishing Company was formed in 1966 and nationalized in 1980. In 1985 it opened a processing plant, which can handle 7 tons of shrimps a year. There are plans to build two new harbours to compensate for the fall in catches that have accrued due to pollution in the Gulf. Catches fell from 2,690 tons in 1979 to 2,115 tons in 1983, (which was enough to supply about 80 per cent of local demand) and have since grown to 2,678 in 1987.

Within the framework of its agricultural development plans, the state has carried out two key projects, which can be summarised as follows:-

(1) Qatar Poultry Corporation (QPC):-

In addition to the supply of chicken and eggs, QPC produces chicken feed and egg packages. Steps have been taken by the Ministry of Industry and Agriculture to boost the output of this project to 2.5 million chickens and 25 million eggs every year.

(2) Abu Samra Sheep Project:-

This project supplies the local market with approximately 5,000 head of sheep. It now has a total of 12,000 head and there are plans for increasing the capacity of this farm. The area of the farm will be enlarged for growing fodder and artesian wells will be drilled. A veterinary centre and laboratory have been established to undertake the inoculation of livestock.

3.3 KUWAIT

3.3.1 Introduction

The growth of agriculture and fishing has been impressive in recent years, with the total value of production doubling between 1983 and 1988, but its contribution to non-oil GDP remains insignificant at 1.7 percent in 1988. In 1988 the sector employed 1.3 percent of the labour force, compared with 0.6 percent in 1983. Only 0.4 percent of Kuwait's land areas was cultivated in 1985/86, about 4,500 ha being used for vegetables and 2,200 ha for fruit trees and timber. Holdings numbered 1,886 in 1985/86. Yields are held down by the shortage of good quality irrigation water and the poor desert soils.

3.3.2 Production, Area and Yield of Different Crops

The traditional winter crops until the mid-1980s were tomatoes, cucumbers and alfalfa. Since 1984, however, there has been a spectacular increase in

greenhouse crop production, which by 1985/86 accounted for 270 ha of land with total crop production of some 32,300 tons as compared with the winter vegetable crop of 74,500 tons. Tomatoes and cucumbers are the major locally produced agricultural crop, accounting for 49 percent of total output in 1987/88.

Table 3.2: Agricultural Production (000 Tons)

Crops	1984	1985	1986	1987	1988
Tomatoes	14	30	37	38	39
Vegetables and Melons	36	77	113	117	119
Fruit	2	1	1	1	2
Dates	2	2	1	1	1

Source:- EIU - Country Profile 1989-90.

3.3.3 Meat and Fish Production

As one of the few industries native to the country, together with pearling, fishing still meets about 60 percent of total demand, with the annual catch estimated at about 4,000 tons in 1986. It is the subject of research at the Kuwait Institute for Scientific Research, which is investigating the viability of fish farming. Fish farms are mainly concentrated on the islands of Bubujan and Failaka. There has been rapid growth in the shrimping industry as the United Fisheries Company has been exploiting this field with modern ships. The total shrimp catch increased from 278 tons in 1981 to 484 tons in 1983, although catches have since declined as a result of increasing levels of oil-related pollution in coastal waters.

3.3.4 Livestock

In 1988 livestock numbers were estimated at 26,000 cattle, 300,000 sheep, 20,000 goats and 28 mn poultry. There are also around 8,000 camels, as well as other stock, which are kept by nomadic tribes and are not included in the official statistics. The most rapid growth in recent years has been in the numbers of

cattle (mainly dairy) and poultry. Wool production has been encouraged and increased to a peak of 473,000 tons in 1988, although it was halved the following year. Output of fresh cows milk was estimated at 4,000 tons in 1988, while egg production reached 17,500 tons.

The government remains keen to encourage agricultural development and provides free pesticides and veterinary services, as well as subsidising seed, machinery and fertilizers.

3.4 BAHRAIN

3.4.1 Introduction

Cultivated land in the state of Bahrain covers less than five percent of the country's total area of 660 square kilometers. This, according to a statement by Bahrain's Ministry of Trade and Agriculture, means the total area actually utilized for agriculture does not exceed 50 percent of all cultivable land.

In 1983, the country's total water consumption amounted to 165 million cubic meters, of which only one third was used in agriculture. Bahrain is used 30 percent more water than they need, according to recent estimates.

In light of the broad outlines of recent study (Agriculture Ministry, 1989), meanwhile, the government is planning to increase the cultivated area through a rationalized system of water use and the introduction of modern techniques, including night watering to overcome problems of evaporation.

The area of agriculture in 1985/86 increased to 7,799,88 donums compared to 5,227,79 donums in 1982/83; the increase has been particularly due to an expansion in planting of tomatoes and potatoes.

3.4.2 Production, Area and Yield of Different Crops

There was increased in production, particularly in onion production, which increased to 810 tons, compared to 1982/83 when the production was 552 tons. In all some 40 types of vegetable are grown on the island.

Table 3.3: Agricultural Production (000 tons)

Crops :	1982/83	1985/86
Tomatoes	3089	4413
Cabbage	402	650
Cauliflower	149	225
Lettuce	524	573
Carrots	291	233
Onion	552	810
Beetroot	22	56
Turnips	79	105
Potatoes	26	74
Snake Cucumber	484	621
Cantaloups	26	55
Okra	49	108
Marrow	527	778
Pumpkin	46	152
Others	480	780

Source : Annual Statistical Abstract 1984,1985, 1986.

By far the most prolific is tomatoes, which is grown on 188 ha. The government is making efforts to improve yields and boost what is considered as strategic crops. Local production provides approximately 15 percent of fresh vegetables, 86 percent of egg and 51 percent of poultry sales. In spite of the promotion of the agricultural sector, Bahrain's food import bill increased in 1988 to BD 82.1 mn from BD 74.4 mn in 1987. To meet the needs in the future, the

government is taking steps to improve agricultural production, e.g. using new techniques, modern equipment.

3.4.3 Meat and Fish Productions

Bahrain's per caput fish consumption is 25 Kg a year, one of the highest levels in the world. Bahrain's fishing industry declined during the 1970's largely as a result of pollution in the Gulf which decimated the shrimp population, and the Bahrain Fishing Company closed in 1979. However, the government has strongly encouraged its revival and outlined plans for modernising the industry, providing training and developing deep water fishing in its 1983/87 development programme. A new fishing port was opened at Muharrag in 1984 and work is progressing on a second one at Sitra. The annual catch has exceeded 6,000 tons in recent years. Incentives for shrimp fishermen have also been increased to provide work for dhow seaman displaced by the new road link to Saudi Arabia, and moves are under way to expand the export potential as well. The UN has agreed to help in setting up a marketing information service aimed at improving export to the other Gulf states and plans have been discussed with the UN for assistance in expanding fish farming.

3.4.4 Eggs, Milk and Dairy Production

Local production provides approximately 86 percent of egg and 51 percent of poultry sales. An abattoir was opened in mid-1984, a date processing plant has been built and there are plans for a national dairy pasteurisation plant. The government runs several experimental farms, and in 1985 provided 15 percent of the equity to open a new dairy plant. In spite of the promotion of the agricultural sector, Bahrain's food import bill increased in 1989 to BD 84.1 mn from BD 82.1 mn in 1988.

3.4.5 Livestock

As there is only one census (for 1980), I could not make comparison between a number of years. The number of cattle, goats and chickens are very high, which means those types of animals are very important for the people in Bahrain. The ministry is offering a 40 percent subsidy on mainly imported animal feed, which indicates its determination to increase production of livestock. Currently there are approximately 6,000 head of cattle on the island. These improvements in the agricultural and fishing sectors resulted in their increased contribution to the (GNP). Combined, the two showed an increased contribution from BD 14.9 million in 1980 to BD 20 million of the GNP in 1986. In the near future, agriculture and fishing are expected to play an even more important role in boosting the country's GNP, as interest in their development continues to grow.

3.5 OMAN

3.5.1 Introduction

Oman enjoys warm sunny winters, with few rainy days, but endures very hot, dry summers which are also very humid in coastal areas. In Dhofar the summers are kept relatively cool by the thick monsoonal mists (Kharif) which enshroud the plains and the mountains facing the sea. The main agricultural area is the Batinah coast, accounting for about half the total cropped area of approximately 41,000 ha, but there are also a scattering of small agricultural villages in the eastern and western Hajar and parts of the interior. Almost all farms are average size (4 ha), with the exception of a growing number of recently established farms, and are privately owned. They rely entirely on irrigation from wells or ancient tunnel devices known as *aflaj* as rainfall is low and un-reliable. Use of diesel water pumps, tractors, chemical fertilizers and sprays is now widespread.

The Ministry of Agriculture and Fisheries runs research and extension programmes. In 1981 the government set up the Oman Bank for Agriculture

and Fisheries (OBAF), with OR 10 mn capital, to make loans to farmers and fisherman. The bank, it was hoped, would help stem the migration of farmers and fisherman from the country-side and help to increase output. In practice, however, the small farmers have gained least from the OBAF. They may benefit more from the Public Authority for Marketing Agricultural Produce (PAMP) which opened its network of highly equipped collection and distribution centres in November 1985. However, the government's policy of allowing food to be freely imported, with very minor tariff exceptions, tends to undermine the position of internal producers at a time when, in any case, they are having to face radical change in order to survive. Imports of food and live animals rose in 1981-87 from \$245mn to \$383mn.

3.5.2 Production, Area and Yield of Different Crops

The principal crops are dates (1985 area approximately 200,000 ha), alfalfa (3,000-4,000 ha), times (approximately 2,000 ha) and, in the south, bananas. Small but increasing amounts of other fruit and vegetables, of wheat and maize, and of tobacco are also grown. The cooler moist summer conditions around Salalah support some coconut palms, together with papaya and bananas, but no date palms. Banana marketing now benefits from a ripening plant at PAMP's headquarters in the capital area. Marketing of other fruit and vegetables should also benefit from the activities of PAMP. Total production of vegetables rose to 148,900 tones in the 1987/88 with compared to 97,000 tons in 1982/83, fruits to 178,000 tons with compared to 121,970 tons in 1985/86.

3.5.3 Fisheries

Fishing is a traditional industry of great importance along the whole of Oman's long coastline. Since the 1950's the number of traditional fisherman has declined rapidly, particularly on the Batinah coast, but in recent years improved

Table 3.4: Production of Vegetables and Fruits from Production Farms. (000 tons)

Crops	1982/83	1985/86	1987/88
Vegetables	97000	17212	148900
Fruits	46801	121970	178000

Source: Annual Statistical Abstract, 1988.

roads and freedom of travel in the peninsula have stimulated private enterprise to export increasing quantities of fish to the UAE and beyond. These fishermen, and fish traders, have been aided by government financed ice factories and marine workshops and by financial assistance to purchase better boats, engines and equipment.

The government has also attempted to stimulate larger enterprises. In 1980 the Oman National Fisheries Company was established, part government and part privately owned. The company also runs the Mattrah fishing complex. In 1988, the Oman Fishing Company was created with a subscribed capital of OR 12.5mn in March 1989, divided into 2.5mn shares, of which only the government is allowed to hold more than 6,000. Its twin aims are commercial exploitation and employment provision. About 14 trawlers operate in Omani waters. Most fish, however, are still caught by traditional fishermen. Total estimated landings rose from 115,011 tons in 1987 to 166,077 tons in 1988 - the first time an increase of this scale has been achieved. Only about 18,000 tons of this was caught by the industrial fleet.

3.5.4 Livestock

In 1988 total livestock numbers were estimated at 712,000 goats, 219,000 sheep, 136,000 cattle, 42,000 camels and 24,000 donkeys, in addition to about 2mn chickens. Most of the goats are in the north, with some large herds in the

mountains. Most of the sheep are kept in small numbers in village houses, as are many of the cattle. But perhaps 70,000 head of cattle are reared by pastoralists in the Dhofar mountains. Chickens are found in many village houses, while a number of privately-owned intensive poultry units have been opened. The four largest of these produce 30mn eggs and up to 500,000 broilers annually. A new company in Nakhl started production in 1989 and is expected to produce 44mn eggs annually.

3.6 SAUDI ARABIA

3.6.1 Introduction

Agriculture now employs about 23 percent of the Saudi work force and, despite gains in actual numbers during the last five years, agriculture's share of the employment market is falling. In 1985 there were 617,400 people employed in the sector. Only 850,000 ha are cultivated (about 0.04 percent of the total area), and there are about 80mn ha of good to fair pastoral rangeland. The limiting factor governing the cultivated area is accessibility of ground water for irrigation. The climate rules out the possibility of rainfed agriculture except in the south west and even there dams are used to create more controlled watering conditions. Agriculture performed very strongly during the third plan (1980-1985), with a sizeable increase in private investment, growth in output by 8.7 percent a year, expansion of the work force by 2.5 percent a year, despite a planned contraction at a similar rate, and the achievement of self-sufficiency in wheat. Much of the progress was achieved as a result of generous government subsidies at both input and output levels. An annual growth rate of 6 percent is forecast for the fourth plan (1985-1990), along with calls for a much closer coordination between agricultural and water policies amid considerable concern at the heavy demands placed by farming on the Kingdoms non-rechargeable aquifers.

During 1960s and up to 1978/79 the development emphasis fell mainly on two areas of government activity. One of these was the first significant phase of public land distribution which followed the setting up of a Public Land Management Department in 1968 as part of a Ministry of Agriculture and Water established in 1953. Based on the countrywide survey of land and water resources carried out between 1964 and 1970, 48,000 ha of public land had been identified by the end of 1972 as suitable for development and distribution, of which 28,000 ha had been delivered to almost 4,800 applicants, the average allocation being less than 6 ha. The second type of development comprised large government projects. At Al-Hasa, \$60 mn was spent in improving the irrigation and drainage system in the Kingdom's largest oasis. The aim of expanding the irrigated area from about 8,000 to 20,000 has not been achieved but the long decline of the oasis has been arrested and farming productivity of the 12,000 ha maximum now farmed in winter is rising. At Haradh there is the virgin land development first projected in the mid-1960s as a bedouin settlement scheme for some 4,000 ha. This has now become a livestock and fodder production unit. At Wadi Jisan, the first phase of which was completed in 1971, a major flood regulator and storage dam was integral to the planned expansion and improvement of existing state irrigation which support about 50,000 people. From the late 1970s onward, direct government involvement became more concentrated in projects of production potential, such as at Wadi Dawasir, and was confined mostly to expenditure on land preparation with the aim of encouraging subsequent private sector investment at the production level, as at Haradh. More important still has been the linking of land grants with financial inducement to encourage the setting up of private food production units.

3.6.2 Production, Area and Yield of Different Crops

The total area under cultivation was estimated to have increased by 5.7

percent during crop year 1986/87 to reach 854,000 hectares. Agricultural production was also projected to have risen by 12.2 percent to 4.6 million tons. Total grains production was estimated to have reached 2.9 million tons during the year, an increase of 16.4 percent over the previous year, of which wheat production reached 2.7 million tons, a rise of 15.9 percent from the preceding year. Barley production expanded sharply during the year to reach 162,000 tons, an increase of 33.9 percent. The noticeable expansion in barley production was due to rising domestic demand for this type of grain, especially by livestock producers. Production of vegetables and fruits was estimated to have reached 1.1 million and 0.6 million tons increasing by 2.7 percent and 8.1 percent respectively.

Wheat deliveries to the Grain Silos and Flour Mills Organisation (GSFMO) reached 2.5 million tons in 1987/88 compared with 2.2 million tons in 1986/87, an increase of 15.0 percent. The grain silos have a current storage capacity of 1.6 million tons and additional silos are under construction with a total capacity of 0.8 million tons. Barley deliveries to GSFMO reached 96,471 tons in the period under review.

3.6.3 Poultry, Livestock and Dairy Production

The Kingdom's production of poultry was estimated to have reached 317,000 tons in 1987 compared with 275,000 tons in the preceding year, a rise of 15.3 percent (Table 3.6). Domestic production accounted for 72 percent of total consumption. The production of eggs was estimated to have reached 115,000 tons and exceeded domestic consumption. Most of the surplus of egg production is exported to Arab Gulf states. Total domestic meat production rose by 13.2 percent in 1987 to 533,000 tons compared with 471,000 tons in the preceding year. Domestic production accounted for 59 percent of total meat consumption.

Domestic production of milk also increased by 9.9 percent in 1987 to 402,

Table 3.5: Agricultural Area and Production*.

Sources	1985/86		1986/87	
	Area (hect.)	Production (tons)	Area (hect.)	Production (tons), P
Total grains	643000	2463000	687000	2868000
Wheat	566000	2290000	601000	2653000
Sorghum	3000	6000	2000	5000
Millet	38000	44000	35000	43000
Corn	2000	2000	1000	2000
Barley	32000	121000	43000	162000
Total Vegetables**	87000	1093000	90000	1122000
Tomato	24000	327000	28000	346000
Watermelon	19000	374000	15000	323000
Total Fruits**	78000	551000	77000	596000
Dates	63000	457000	59000	484000

* The data are for crop year covering the period from 1st November to end - October.

** This total includes other crops not given in this table.

P Preliminary estimate.

Source:- Saudi Arabian Monetary Agency - 1988.

735 tons compared with 366,123 tons in the preceding year. The ratio of domestic production to consumption stood at 99.7 percent.

3.6.4 Agricultural Loans and Subsidies

The Saudi Agricultural Bank granted 4,792 loans during 1987/88, the third year of the Fourth Development Plan, with a total value of R/S 841 million. This increased the cumulative value of loans disbursed by the bank since its establishment in 1972 to R/S 22.4 million. The Bank's loans during 1987/88 were divided into medium-term loans which accounted for 99.7 percent and short-term

Table 3.6: Poultry and Egg Production (tons).

Sources	1986	1987 P
Boiler chickens:		
Domestic production	275000	317000
Imports	122000	125000
Exports	2000	2000
Total Consumption	395000	440000
Ratio of domestic production to consumption	69.6%	72.0%
Eggs:		
Domestic production	— 138000	— 115000
Imports	—	—
Exports	13000	15000
Total consumption	125000	100000
Ratio of domestic production to consumption	110.4%	115.0%

P Preliminary estimate.

Source: Saudi Arabian Monetary Agency -1988.

loans which accounted for the balance. Distribution of loans by purpose showed that R/S 247.7 million or 29.4 percent went to agricultural projects, R/S 171.2 million (20.3) percent to well drilling and casing, R/S 137.6 million (16.4) percent to irrigation equipment, R/S 125.8 million (15.0) percent to farm machinery and R/S 114.2 million (15.0) percent to finance engines and pumps, and R/S 44.8 million or 5.3 percent to other agriculture purposes such as green houses, silos, boats and fishing equipment.

The bank also provided a total of R/S 264/5 million as subsidies to farmers during the period under review. This brought cumulative subsidies granted by the Bank since 1975/75 to R/S 8.4 billion. Of the total subsidies disbursed during 1987/88, subsidies on engines and pumps accounted for the highest share (65.1 percent) or R/S 148.5 million. Farm machinery ranked second (40.8 percent or R/S 08.0 million), followed by transport of imported cows (1.7 percent or R/S 4.5 million), poultry equipment (1.3 percent or R/S 3.4 million), and milk production equipment (0.1 percent or R/S 0.1 million).

3.6.5 Livestock

In Saudi Arabia the goat and the sheep are the dominant animal, and the number of goats have increased to 25.7 percent in 1984/85 compared to 11.8 percent in 1979/80. And the number of sheep have increased to 46.7 percent in 1984/85 compared to 0.4 percent in 1979/80.

In the third five year plan (1980-85), Saudi Arabia has established extensive veterinary services and a network of some 40 veterinary clinics. The authorities have also carried out a country-wide vaccination programme against diseases. The government of Saudi Arabia has established many centres to guide farmers on proper housing, feeding, breeding, and general husbandary methods for their animals.

3.6.6 Fisheries

Saudi Arabia is the best placed member of the GCC in terms of providing substantial quantities of fish due to its geographical location on both the Red Sea and the Arabian Gulf. In 1985, Saudi Fisheries, a company established in 1980, caught 5000 tons of fish and shrimp, and increased this by 1988 to 16,615 tons of fish and shrimps in the Red Sea and the Gulf. The fish catch met over 90 percent of the local demand and a good portion of it was exported to the USA and Japan.

With about 2,000 kilometers of coastline on the Red Sea and the Gulf, the Government had recognized the importance of this sector and initiated an adequate support system to the small fisherman in the form of supplying them with modern gear, advice and marketing assistance.

3.7 United Arab Emirates

3.7.1 Introduction

Agriculture in the UAE will have to continue to rely on fossil water and present recharge of relatively shallow aquifers deriving their water from past and present rainfall and run off, the latter mainly in the high land zone. Precipitation rises to 150-200mm annually in the mountains and elsewhere averages about 50mm. A Ministry statement in 1982 put the annual water requirements of the country at 565 mn cu.m., whilst recharge and the production of desalinated water supplied 210 mn cu.m., leaving an annual deficit of 355 mn cu.m.-roughly equivalent to about 20 years of ground water.

The United Arab Emirates is still continuing to allocate and spend sizeable sums for agricultural development. Abu Dhabi, the largest and richest of the seven Emirates, set aside 3.7 percent of its own DH k.88 billion (US \$ 1.6 billion) development budget for agriculture in 1983, whereas it underspent in all other sectors. The importance the UAE Government attaches to the agricultural sectors justifies the fast steps made towards self-sufficiency in some agricultural products.

Only about half of the landholders declare that the main occupation is farming, and whilst some of these are the residual near subsistence traditional farmers of remote valleys (for example, around Masfut of the extreme north), some in Ras Al-Khaima and Al-Ain are truly commercial vegetable producers.

Table 3.7: Estimation of Total Area Under Agricultural Holding by District 1981-86 (Area by Donum).

Sources	Years					
	1981	%	1983	%	1986	%
Southern	76902	29.1	108731	34.2	5392	31.8
Middle	72847	27.6	99701	31.4	4301	25.3
Northern	81338	30.8	72933	22.9	2486	14.6
Eastern	32444	12.3	36132	11.3	4765	28.1
Total	263531	100	317497	100	16944	100

Source: Ministry of Agriculture and Fisheries (1987).

Over one third of holdings are described as being used for domestic consumption. Holdings are almost small, over 1 to 1.5 ha in the central and eastern regions and about 3-4 ha in the north and south. Abu Dhabi is the most important emirate in terms of agriculture due to the abundance of water resources, particularly in Al-Aim where great agricultural developments were made possible.

As Table 3.8 shows, the quantity of tomatoes have increased to 23.5 percent in 1982 compared to 19.1 percent in 1983, and the quantity of onions has increased to 4.5 percent in 1985/86 compared to 3.4 percent in 1982, and 1.9 percent for peppers in 1985/1986 compared with 0.9 in 1982.

The current five-Year Development Plan , which is expected to increase egg production by 38 per cent and 234 percent in white and red meat. Four major poultry farms are now operating in UAE producing eggs and chickens. Two of these poultry farms are situated in Abu-Dhabi and the others in Ras Al-Khaimah and Umm Al-Quwain.

The latest move towards achieving the goal of self-sufficiency was demonstrated by the establishment in 1985 of an Agriculture Credit Fund. The Fund's aim is to assist and fund all agricultural and fishing activities. It offers loans to

**Table 3.8: Estimation of Vegetable Products in U.A.E.
1982 - 86 (Qnty : Ton).**

Sources	Years					
	1982		1983		1985/86	
	Quantity	%	Quantity	%	Quantity	%
Tomato	58783	23.5	57399	19.1	44144	18.5
Egg-plant	13899	5.5	16843	5.6	19044	8.1
Okra	4137	1.6	5394	1.7	4209	1.8
Beans	254	0.1	297	0.09	872	0.3
Cow-Peas	3681	1.4	2593	0.8	2835	1.2
Jew's Mallow	1532	0.6	2171	0.7	2061	0.8
Chard	3015	1.2	3099	1.0	4720	2.0
Squash	14832	5.9	16627	5.5	14215	6.1
Cucumber	8083	3.2	6412	2.1	7683	3.2
Cabbage	10420	4.1	26287	8.7	20797	8.9
Cauliflower	7190	2.8	6582	2.1	11272	4.8
Potato	2509	1.0	3283	1.0	4164	1.7
Onion	8516	3.4	12958	4.3	10490	4.5
Watermelon	62378	25.0	71070	23.6	33688	14.4
Sweetmelon	25752	10.3	34644	11.5	15792	6.7
Lettuce	1397	0.5	2428	0.8	2966	1.2
Radish	5098	2.0	4517	1.5	4667	2.0
Parsley	922	0.3	1228	0.4	3431	1.4
Carrot	2568	1.0	5299	1.7	2741	1.1
Pepper	2469	0.9	4186	1.3	4610	1.9
Others	11834	4.7	16747	5.5	18456	7.9
Total	249269	100	300067	100	232812	100

Source: Ministry of Agriculture and Fisheries (1987).

individuals, companies, co-operative societies and other organizations engaged in farming and fishing. The fund also provides subsidy in cash for the purchase of equipment such as pumps and boat engines.

The most severe constraint to the expansion of agricultural activity in

the UAE is the availability of water. Irrigation in the country depended mostly on pumping out underground water. While in most places the underground level has dropped; in few areas the wells have dried out completely. Several steps were taken to alleviate this problem. The government has been consistently trying to educate the farming community in the efficient use of water resources. Several dams were constructed to collect rain water and thus recharge the underground reserves. Five dams with a total capacity of 15 million cubic metres a year have been completed and nine others are planned. Modern irrigation techniques are also being introduced, aimed at cutting down labour by 50 percent and conserve up to 60 percent in the utilization of water.

3.7.2 Livestock in UAE

Although livestock farming is severely constrained by the climate, with its high temperatures and humidity, the Damascus-based Arab Company for Livestock Development is joint-owner of a dairy farm comprising 600 Friesians at Digdagga in Ras al-Khaimah. The UAE is 45 percent self-sufficient in poultry, 70 percent self-sufficient in eggs and over 80 percent self-sufficient in milk.

3.7.3 Fisheries.

The UAE coasts are rich in fish, both quantitatively and qualitatively. The government has assigned international and domestic experts to implement a number of fishing projects and agreements were concluded for the construction and operation of a fish research centre in Umm AL-Quwain for promoting shrimp culture, and that of other fish types, on a commercial basis.

3.8 Agricultural and Fishery Cooperation Amongst the GCC States

GCC efforts to reach greater levels of cooperation in the domain of agriculture have been directed primarily toward the unification of farming policy. The

GCC ministers of agriculture, during a meeting in January 1983, approved several measures in this regard and established a permanent committee to examine the critical issues relating to water and land utilization. The culmination of the GCC's efforts in agriculture of a common agricultural policy statement in February 1984 (See Appendix B). The GCC common agricultural policy makes explicit reference to the ultimate aim of GCC activity in this regard- namely, "the agricultural integration of the GCC states [on the basis of] reciprocal and balanced benefits to the cooperating parties". In addition, the policy seeks to maximise resources, secure the greatest possible degree of self-sufficiency (particularly in basic food commodities), and promote the role of the private sector in the development of agriculture. These objectives, according to the policy, should be realised through the coordination of "local" (that is, national) agricultural plans, policies, and practices, the creation of a joint programme for food and agricultural production, the formulation of a common regime for the conservation of natural resources, and the establishment of research capacity.

Another area of ongoing GCC activity is the development of a strategic food reserve. The GCC region, because of high salinity in the soil, meager water resources, scarcity of rain, and extremely high temperatures, is not conducive to extensive agricultural programmes. The significant regionwide dependence on imported food was a source of serious concern, even before the process of urbanization and the influx of large numbers of foreign workers in the 1970's expanded the dimensions of the problem. These factors underline the explicit reference of food security in Article 7 of the Economic Agreement, which stipulates that the member states will make arrangements to "coordinate policies for building up strategic food stocks". Measures under the aegis of GCC to provide a measure of regional food security, therefore, have been a focus of GCC activity. The GCC ministers of agriculture, during their January 1983 meeting, agreed to examine options regarding the food security issue. Among other things, they recommended

that agriculture be given priority in regional investment discussions and resolved to continue the national efforts to develop food production capabilities. In addition, plans for the creation of such a reserve were reviewed by the GCC commercial cooperation committee during its meeting on 17 July 1984 and 3-4 March 1985. The issue was also taken up at a meeting of representatives from GCC supplies directorates on 4-5 December 1985.

The emphasis of the GCC's agricultural programme was encapsulated in the set of development priorities reached by the GCC economic and social planning committee in March 1985, the "Objectives and Policies of Development Plans in the GCC States", which among other things provided for the encouragement "of investment in large profitable agricultural ventures that use machinery and modern technology for irrigation, and of entrepreneurs to establish companies, along with continued encouragement of individual investment in agriculture". It is clear that most of the individual GCC states have made significant strides in agricultural production on the basis of these objectives since the GCC was established. It is also clear, however, that enhanced GCC cooperation as envisaged in the common agricultural policy has been defined but not yet fully implemented among the member states.

3.9 Summary

The agricultural area in the Gulf states totals 6.16 million hectares, of which only 2.8 million hectares are being cultivated. Rainfed agriculture is possible only where the average annual rainfall is at least 200 mm, a condition only met in 3 percent of Saudi Arabia and 12 percent for Oman. Furthermore, the geographical structure means that rainfed agriculture can only be carried out in a small proportion of the area meeting the 200 mm criterion.

The countries of the region have therefore turned to irrigation, using mostly ground water. Aquifers have been tapped at ever increasing depth and it is estimated that by the turn of the century non-renewable water resources will in some regions of Saudi Arabia and Bahrain be fully exhausted if the current extraction rates are maintained.

Regarding the common agriculture policy, it is still not implemented. The main reason why the G.C.C. countries are not willing to implement the policy is because of the lack of overall agriculture strategy, the slowness of the bureaucracy and the instability of the agricultural labour force.

The absence of significant private investment in agriculture is noticeable and reliance on the government increases all the time. This is due mainly to the fact that many landowners consider agriculture as a social rather than an economic phenomenon. It is shameful, in accordance to tribal teachings, to work physically on the land as a farmer. This traditional attitude which unfortunately still exists has long made it necessary to bring foreigners in to work on the land, and many of these workers have no previous farming experience and are basically unskilled labourers. Further, even at technical and white-collar level, there is a shortage of native employees in agriculture, while other governmental bodies suffer from being over-staffed. Overall there is a shortage of skilled technicians and managers. For example, the Ministry of Industry and Agriculture in Qatar had planned the setting up of an Agriculture Training School but this has not been put into effect and there seems little hope of attracting Qataris into this kind of vocational training.

Given their economic influence in this sector, governments in the G.C.C. countries could impose not only specific soils and water policies which are appropriate, but also any other land use policies such as specific cropping patterns, methods of cultivation, etc. They could also be more selective in the free-of charge

inputs which they give to the farmers for implementing its policies. However, governments would still have to add better management (both in their Ministries and on the farms) to implement its policies. The lack of experience of workers - on and off farm - also means that a training and recruitment programme must be carried out in spite of all the social difficulties, as without a skilled work force no improvement is possible.

CHAPTER FOUR

Industrial Development in the GCC Countries

4.1 Introduction

The challenge facing industrial development in the Gulf region is the ability to produce and sell competitively, in the domestic markets as well as abroad. The highly concentrated development effort of the region's public sectors to build large scale industrial schemes and the comparable hydrocarbon resources of the Gulf countries are leading to the creation of similar industrial bases. This would reduce the scope for regional trade and may increase considerably the risk of competition in the export markets, whether within the region or outside it. The GCC countries need, therefore, to come up with a coherent industrial strategy for the region as a whole, that eliminates duplication, promotes complementary industrial projects and creates inter-industry and inter-country linkages. This does not only help expand the size of the domestic market but also create forward and backward linkages, so that investments in one industry would make investments in others more profitable.

There are several barriers to rapid industrial development in the region that need to be addressed. These include the high cost of imported intermediate products, the small size of the local market, the lack of industrial management expertise and technical skills among the national population, the ineffectiveness of the existing marketing system, the non-availability of the necessary information base and adequate research on technological advancement, and the openness of the Gulf markets given the limited protection offered by the tariff system. There are as well, various bureaucratic constraints, limited commercial bank leading to industrial projects and incomprehensive industrial legal codes. Another constraint has been the limited entrepreneurial vigour of the region's private sectors. Gulf

businessmen have been geared both psychologically and economically toward trade and services activities, where profits are apparently easy and returns substantial and quick. This attitude has had a negative impact up till now on the expansion of the industrial sector. Private entrepreneurship has been, to a larger extent, shying away from industrial activities which involve more risks and long gestation periods for profitability.

Set against these constraints, industry in the Gulf has the benefits of a skilled, non-unionized, imported labour force, wide-ranging industrial incentives and subsidies, political stability and reasonably consistent government industrial policies and regulations. The region has, as well, ample capital resources, no exchange controls, and state of the art infrastructural facilities, including ports, airports, hotels, roads and telecommunications. Furthermore, industry and all other parts of the Gulf economy have the benefit of the region's enormous contacts with the outside world and its receptiveness to modern business ideas. Most important of all in recent years has been the advantage that all sectors have gained from a fall in the cost of labour, especially at the bottom end of the market, and the drop in rents and real estate prices to more reasonable levels. To some extent, there is now industrial service back-up available in the region, including distribution operations, advertising agencies, maintenance and specialist transport companies.

It is only very recently that Gulf businessmen have come to appreciate that they can profitably do business in fields other than contracting, real estate, importing, money exchanging, service related activities and small manufacturing associated with oil construction. There are many niches in the Gulf markets that have not yet been filled and where investments may prove quite profitable in the next decade. Any product which fills a local need (especially if it leads to import substitution) or can be exported and does not require long-term subsidies

and protection to become commercially viable may be considered. The principal comparative advantage of the region as a manufacturing base lies in the availability of cheap energy and the low priced local feedstock produced from petrochemicals and natural gas plants. There exists as well a growing market for consumer products with a total population in the Gulf of 16 million and with a per capita purchasing power among the highest in the world. From the point of view of foreign companies, the fall in oil revenues and social and economic changes that followed in the 1980's mean that the Gulf states should no longer be thought of purely as a consuming market. They are becoming more like other markets in which companies might be involved as investors or joint venture partners in manufacturing or service operations. Conceivably, companies might see the region as a manufacturing base from which they would export products to other Arab countries, Iran, the Indian subcontinent or even to Europe.

4.2 QATAR

4.2.1 Introduction

Crude oil accounted for approximately 30 percent of GDP in 1987, between 1982 and 1986 it accounted for 90-94 percent of export earnings. A fertiliser plant was opened in 1978 and a major petrochemicals plant in 1980. how that there werewas opened in 1978, followed by an integrated steel works in 1978 and a major petrochemicals plant in 1980.

4.2.2 Industry

4.2.2.1 Oil Industry

Oil was discovered in 1939. The first crude shipment was made in 1949 from the onshore Dukhan field on the east side of the peninsula, via a pipeline to a terminal at Umm Said. The first offshore field was discovered at Idd al-Shargi in 1960, and a second was found at Maydan Mahzam the same year. In 1965 a production complex to serve both fields was completed, using a terminal at Halul Island. In 1970 a third offshore field was discovered at Bul Hanine. Qatar also shares a small offshore field, Bundug, on a 50:50 basis with Abu Dhabi. Total proven oil reserves were estimated at 4.5 bn barrels at end-1988. Attempts are under way to extend the life of the existing fields by secondary recovery programmes involving water injection.

Qatar's oil production has fluctuated since 1980 under the impact of developments on the world oil market and Opec decisions on collective production quotas. Production capacity of the emirate's fields stands at 400,000-450,000 b/d, including the Qatari share of Bundug. However, Qatar was allocated a quota of 300,000 b/d and this was further reduced to 280,000 b/d in October 1984. Qatar's output, after running at 280,000 b/d during the first half of 1985, rose to 300,000 b/d in November and December of that year. Hindered by a relatively high official price for its crude exports, Qatar's output fell from 289,000 b/d in January 1987 to a low of around 100,000 b/d in April of that year. Following the introduction of discounting, production picked up and averaged 311,800 b/d over the whole year. In July 1987 Qatar Dukhan crude was priced at the Petroleum Development of Oman (PDO) assessment price plus 10 cents per barrel, Qatar Marine at PDO plus 5 cents per barrel. Production in 1988 averaged 315,500 b/d, (with exports of 304,000 b/d) and in the first half of 1989 averaged 339,000 b/d. Qatar's quota for the second half of 1989 was raised from 312,000 bld to 329,000 b/d. Its final

quarter quota was then raised again to 346,000 b/d.

The Dukhan field was originally operated by the Qatar Petroleum Company, owned by BP, CFP, Shell, Exxon/Mobil and Partex. The state took a 25 percent interest in QPC in 1973, increasing this to 60 percent in 1974 and 100 percent in 1976, through the Qatar Petroleum Producing Authority, a wholly owned subsidiary of the Qatar General Petroleum Corporation (QSPC). The QGPS holds the state share in all oil, gas, petrochemical and refining enterprises in Qatar and abroad. In 1980 QPPA was merged with QGPC.

Table 4.1: Oil and Gas Statistics Summary

Sources	1983	1984	1985	1986	1987	1988
Crude oil production (000 b/d)	269.0	326.2	290.1	332.5	311.8	315.5*
Marketed production of natural gas (bn mc)	5.2	5.9	5.5	5.8	5.6	6.4

Note: * Estimate

Source: OPEC, Annual Statistical Bulletin, 1988

4.2.2.2 Gas Industry

In recent years the Government of Qatar has been greatly concerned with the discovery and exploitation of natural gas. Until the mid-1970s most of country's natural gas was flared off, but by 1979 this applied to only 5 percent of production of associated onshore gas, which had reached 12.3m cum per day. Recent exploration has indicated that Qatar's North Field, formerly known as the North-West Dome, is the largest natural gas field in the world. In 1986 Qatar's proven gas reserves totalled 4,280,000m cum, of which 97.6 percent was unassociated with oil production.

Work on the project began in mid-1987. Work is expected to be completed by the end of 1990, with commercial production commencing during the first quarter of 1991. Qatar also has a network of non-associated gas pipelines drawing feedstock from the Khuff layer under the Dukhan fields. This produces fuel for small generators, for the Ras Abu Fortas electric power and desalination plant and the steel plant. Qatar's industries are dependent on gas and the decline in oil production has meant that the amount of associated gas available to industry has declined. Oil production rates of under 400,000 b/d mean that there is insufficient gas to supply the two power stations and industry. This combined with the fact that Qatar's industrial and power needs were increasing up to 1986 by 10 percent a year, made the exploitation of Qatar's extensive non-associated gas reserves essential.

The offshore facilities are located 75 km from Ras Laffan and compose six platforms, including two well head platforms. Gas and condensates will be piped ashore to Ras Laffan and then on to Umm Said where they will be processed at the new NGL-3 plant. The first phase of the project calls for the production of 800m cubic ft/d of gas and about 50,000 b/d of condensates. About 450m cubic ft/d of the gas is expected to be used by local industries and utilities, with the remainder reinjected into the Dukhan Khuff reservoir. The condensates will be exported. Plans to extend the project to include a gas sweetening plant and sulphur processing unit were announced in mid-1989. Bechtel of the USA and Technip of France have been jointly appointed as consultants for engineering, construction and procurement and are expected to manage some \$850m in work on developing the production facilities and pipelines. The two companies will also receive a management consultancy contract worth \$70-80m. Financing of the project is almost complete, with a \$400m loan for QGPC agreed in late 1989. Qatar has also set aside the proceeds (up to \$600m) from the sale of 40,000 b/d to part finance the project, with the balance coming from QGPC funds. The total

cost of the project is expected to reach \$1.3bn.

In the longer term, two additional phases are planned. The first involves the production of 800m cubic ft/d gas to be exported to the neighbouring Gulf countries where it would be used to help power a combined electricity grid. The second involves production of another 800m cubic ft/d of gas for export to Europe and the Far East. Talks have been held with Turkey's state oil and pipeline company, Botas, about building a pipeline to carry the gas to Europe via Turkey, but no decisions have been reached. BP, Total-CFP, Marubeni and Mitsui each hold 7.5 percent in the Qatar Liquefied Gas Company, with QGPC holding the remaining 70 percent. Qatar gas was set up in 1984 to export and market Qatari LNG to be produced from the North Field project - it has proposed constructing facilities to produce and export 4m t/y of LNG.

4.2.3 Petroleum Refining

Qatar's first major refinery at Umm Said was commissioned in 1974 for the National Oil Distribution Company (NODCO), which had been founded in 1968 to manage the refining and distribution of oil products. Umm Said refinery had an initial capacity of 6,321 b/d, compared with the earlier refinery, built in 1953, which had had a capacity of only 600 b/d. Expansion of Umm Said increased total capacity to 12,000 b/d in 1977. A second refinery, which was completed in 1984 and was built by the French company Technip, is situated close to the original Umm Said refinery and is linked to it. The refineries are managed by NODCO, a wholly owned subsidiary of QGPC, which also distributes products. Production averaged 33,150 b/d in 1987, with local sales of products reaching 11,570 b/d. Exports in 1987 averaged 20,900 b/d and by mid-1989 product exports had reached about 96,500 bld. Local consumption of petroleum products is expected to rise from 15,000 b/d in 1986 to 25,000 b/d by 1995. Technical and engineering studies have been carried out on raising the refinery's

total capacity to 74,000 b/d, with the aim of increasing exports. Work on an isomerisation plant, to produce 5,5000 b/d of lead-free gasolines, started in mid-1989.

4.2.4 Petrochemicals

The Qatar Petrochemicals Company (Qapco) is shareholder in a plant opened at Dunkirk in France in 1979. This is operated by the Campagnie Petrochimique du Nord, in which QGPC holds 40 percent and CdF. Chime of France 40 percent. Its capacity is 450,000 t/y of ethylene and 300,000 t/y of polyethylene QPC and CdF. Chime also cooperated in setting up a petrochemicals plant in Qatar itself, this was commissioned in 1980 with a capacity of 280,000 t/y of ethylene and 140,000 t/y of low density polyethylene and 46,000 t/y of sulphur. Both plants have suffered from shortages of gas feedstocks since 1981 and plans for a new high density polyethylene plant were cancelled in 1983 due to a shortage of government funds, but in 1984 Qapco announced that it was building a new ethane feedstock plant which would raise supplies to the petrochemical plant from 500 t/d to 1,100 t/d. The plant is now open.

Qapco losses rose as problems over feedstock and prices mounted. The company's QR 156m loss 1985 was its biggest ever, followed by QR 57m in 1986. In 1987 cost cutting measures and stronger polyethylene prices helped turn this loss into a QR 85m profit. Over half Qapco's output is now sold in the Middle East region and India and the rest to Japan and South East Asia.

Dukhan gas also fuels the Umm Said fertiliser plant run by the Qatar Fertiliser Company (Qafco) which commenced production in 1973. QGPC owns 75 percent of the company's shares, with Norsk Hydro owning the remaining 25 percent and providing management and export marketing. A parallel plant, which doubled capacity to 1,800 t/d of ammonia and 2,000 t/d of urea, was completed

at the end of 1979. Total production has risen to new record levels each year since 1981. In 1984 Qafco produced 735,000 tons of ammonia (only marginally down on record production of 744,000 tons in 1985) and a record 780,000 tons of urea. Ammonia production reached 662,000 and 682,000 tons in 1986 and 1987 respectively with urea production totalling 746,000 and 734,000 tons in the same two years. India and China are the principal markets for Qafco's output. Qafco now plans to build a third ammonia and urea plant, with capacity of 1,500 t/d of ammonia and 1,800-2,000 t/d of urea.

4.2.5 Aluminium Smelting

The North Field project, which will exploit Qatar's vast offshore gas reserves, has boosted the chances of an aluminium smelter being set up in Qatar. The directors of the Doha based Gulf Organisation for Industrial Consulting (GOIC) approved the setting up of another Gulf smelter, and its location in Qatar. A memorandum of understanding was signed in mid-1989 to establish a 200,000 t/y capacity aluminium smelter in Qatar, and a feasibility study was being carried out into setting up a 230,000 t/y capacity ferro-alloy smelter.

4.2.6 Cement Industry

The State of Qatar, being keen on exploiting its resources of gypsum and limestone, established the first cement factory at Umm Bab in 1969. Although initially conceived to export its products, the output of the cement factory was just sufficient to meet local requirements. With the growth in demand for cement the factory was expanded several times, bringing its daily output to between 700 to 800 tons, which covered 50 percent of the local requirements. The Qatar National Cement Company factory at Umm Bab on the west coast has been in operation since 1969 producing over 300,000 t/y. Expansion plans were cancelled in 1983 and sales suffered in the difficult market conditions of 1984. In 1985,

however, Qatar's cement consumption rose back over the 500,000 ton mark and the company's profits recovered to QR 20.5m.

4.2.7 Iron and Steel Industry

The integrated steel complex run by the Qatar Steel Company (Qasco) began production in 1978. It is 70 percent owned by the government, 20 percent by Kobe Steel of Japan and 10 percent by Tokyo Bolki. At the start of 1989, Qasco took over full management of the steel mill from Kobe Steel. It was the first complex of its kind in the Gulf to use natural gas in the conversion of iron ore into sponge iron. Output of reinforced steel bars totalled 503,000 tons in 1988 (marginally up on 1987's output of 500,000 tons) and the company claimed to have recorded its first annual profit since it started operations.

Qatar's excellent geographic position, near the Arab states importing iron and steel, means that the products of the plant arrive at the purchaser by land within a few days, without being exposed to corrosion risks as is the case with steel imported by sea.

4.2.8 Other Industries

In addition to these major industrial schemes, many other small enterprises have been established, mainly in Umm Said, which is now the industrial centre of the country.

The Qatar Flour Mills Company began production at Umm Bab in 1969, and by the late 1980's output had reached a level of about 700 tons per day.

Qatar's power needs are supplied by two major power stations. One at Ras Abu Aboud has capacity of 210mw and 17.5m g/d of distilled water. Another, at Ras Abu Fontas, came into full operation in 1983 with total generating capacity of 1,150mw and desalination capacity of 48m g/d. Another power and desalination

plant is to be built at Wusail. When completed, it could provide 1,500mw of power and 100m g/d of water. Work on the plan has been delayed by budget constraints but bids were sought in mid-1989 for the construction of an additional 250mw of generating capacity and 10m g/d of desalination capacity, for completion in 1991 and 1992. Local power demand, however, was expected to have risen to 1,350mw by 1988, compared with 730 in 1983.

4.3 KUWAIT

4.3.1 Oil Industry

Oil was discovered in 1938 by the Kuwait Oil Company (KOC), then jointly owned by BP and Gulf Oil. Production began in 1946 and reached 1.83m b/d in 1962. It peaked at 3.3m b/d in 1972, at which point an output ceiling of 2m b/d was introduced for the purpose of conservation. Kuwait's existing oil wells now have an installed capacity of 2.9m b/d, with a maximum technically sustainable capacity of 2.5m b/d. Independent estimates suggest that this latter figure could be increased by up to 1m b/d within a 24-36 month lead time. Proven reserves were 94.5bn barrels at the end of 1988, compared with 67bn barrels in 1983, giving Kuwait the fourth largest reserves of oil in Opec. Annual additions to proven reserves in recent years have matched or exceeded the volume of oil extracted. Kuwait oil is somewhat heavier than Saudi crudes, with a higher sulphur content, but the geology is extremely favourable and production costs in Kuwait are estimated at about \$0.15/b.

After various changes in profit sharing and ownership, KOC was fully nationalised by 1975. In 1980 the industry was further reorganised under the umbrella of the Kuwait Petroleum Company (KPC), which directly controls five major subsidiaries: KOC, which is responsible for oil and gas production outside the Neutral Zone, Kuwait National Petroleum Corporation (KNPC), which

controls refining, gas processing and product marketing, Petrochemical Industries Company (PIC), which manages domestic petrochemical and fertiliser production, Kuwait Oil Tanker Company (KOTC), which is responsible for the transportation of crude oil and LPG, and Kuwait Foreign Petroleum Exploration Company (Kufpec) which undertakes exploration activities in overseas concessions.

Oil production from the Neutral Zone is handled by the Arabian Oil Company, a Japanese concern which splits the production between Saudi Arabia and Kuwait. Since 1983 Kuwait's share of this production has been in region of 150,000-200,000 b/d, the bulk (about 125,000 b/d) of which was sold on behalf of the Iraqi government until the end of 1988. After the October 1986 Opec conference instituted strict production control, Kuwait accepted severe output cutbacks which kept its production below 1.25m b/d, excluding its share from the Neutral Zone. However, extensive cheating by other Opec members, coupled with strong demand for oil, resulted in an increasingly hard line being taken by Kuwait in its demands for higher market share. The rupture came at the June 1989 Opec conference when Kuwait refused to accept its Opec quota and effectively left itself free to produce what the market would bear.

Until the Opec price structure collapsed under the strains of the market share strategy in early 1986, Kuwait's prices had been adjusted in line with Opec agreements on differentials. Since the dramatic price cuts of 1986, KPC has experimented with three major types of price structure. Initially it adopted netback pricing, which in 1986 and early 1987 covered about one quarter of its exports. The "tanker war" in the Gulf put strong downward pressure on Kuwaiti crudes, which KPC dealt with by shifting to spot sales linked to the price of Oman and Dubai crudes on the spot market. With its expanding output, and in particular its aggressive marketing in the US market during 1989, KPC increased its term contracts - mostly of three month duration - which by the third quarter of 1989

accounted for the bulk of its exports. These contracts are substantially different from the old, pre-1980 long term contracts which KPC had with Western buyers, mainly BP, Gulf and Shell. The modern contracts have prices set by average spot values in the appropriate regional markets. KPC's third quarter 1989 commitments were split 60 percent for its domestic and foreign refineries, European processing deals and Neutral Zone output sold mainly to Japan by the Arabian Oil Company, and 40 percent for sales to other customers under term contracts (comprising 19 percent to Western destination, 11 percent to Japan and 10 percent to other Far Eastern destination).

Table 4.2: Oil Production, Prices and Exports (000b/d)

Sources	1984	1985	1986*	1987*	1988*	1989†
Production	1010	934	1330	1260	1395	1565
KOC production						
Kuwait share of Neutral Zone	162	128	125	125	125	175
Total	1172	1062	1455	1385	1520	1740
Average price(\$/b)	27.30	26.58	11.10	13.50	14.75	16.25
Exports Crude oil	660	476	820	715	810	1030
Oil products	408	467	520	550	585	585
LPG	39	41	40	40	40	40
Total	1107	984	1380	1305	1435	1655

Note:(*) Estimates. (†) Estimates for January-October.

Source :-

- (1) the EIU-County Profile- 1989-90 - Kuwait
- (2) Central Statistical Office, Annual Statistical Abstract, Central Bank of Kuwait, Quarterly Statistical Bulletin.

4.3.2 Natural Gas Industry

In November 1976 the Amir laid the foundation stone for the Kuwait Oil Company's Gas Project. One of the largest development projects undertaken in Kuwait, this involves the construction of extensive facilities to utilise the gas associated with the output of crude petroleum for the production of LNG and such derivatives as propane and butane. A three-train plant for the production of liquified petroleum gas (LPG), together with a gas-gathering system (which came into operation in 1979), gathers the gas which is produced with petroleum at well-heads, removes LPG components and natural gasoline, then treats and distributes them to fuel users and to pressure-maintenance facilities. The plant built at a cost of over US \$1,000m, has a capacity of 2.2m.metric tons of LPG per year (60 percent propane, 40 percent butane) at a crude oil production rate of 1.5m.b/d. It was originally designed to take crude oil production of 3m.b/d. However, Kuwait's production of gas is limited by the absence of any known reserves independent of petroleum. This has meant that much of the gas produced has been flared to enable rapid oil production, or reinjected, to maximise the production of petroleum by maintaining pressure in the reservoir. Gross gas production ran at 5,800m.cum in 1984, and commercial production at 4,100m.cum, rising to 6,000m.cum, in 1986. However, flaring gas has fallen from 9,330m.cum in 1973 to less than 65m.cum in 1984.

The LPG plant has been forced to operate at well below capacity in recent years, exporting only 1.05m.metric tons of products in 1982/1983.

Little use is likely to be made of the Mina al-Ahmadi refinery's capacity of 1.5m tons of LPG per year, although in 1983 the French company Technip, signed an agreement to construct facilities to increase the output of gas from the Neutral Zone and that project was completed by 1985. This project involves building a gas compression platform offshore, and an onshore gas treatment plant

at Ras Al-Zour. Gas will be carried from the Khafji and Hout Rataur oil fields at the rate of 110m.cu ft(3.1m.cu metres) per day, and will then travel via the new treatment plant, to the LPG plant at Mina al-Almadi. A gas-gathering grid to produce 2,500m.cum per year from the Neutral Zone was completed in 1989.

Kuwait's natural gas reserves in 1988 were estimated at 48.7 trillion cubic ft but are mainly in the form of associated gas. Production has therefore been dependent upon oil output and has fluctuated sharply in recent years. There is one LPG plant at Ahmadi, which was opened in 1979 using gas that was formerly flared and which in 1988 accounted for 16 percent of OPEC LPG production. In order to increase the flexibility of local gas supplied, Kuwait is now developing the south gas project as a supplementary gas gathering scheme, as well as importing gas from Iraq in order to meet the requirements of the petrochemical industry. However, the fall in oil prices in 1986 severely affected gas prices, with Kuwait forced to slash its propane and butane prices by more than half from \$217/t at the beginning of the year to \$100/t and \$95/t respectively six months later. After a short-lived recovery in mid-1988, prices slumped to \$95/t and \$90/t respectively in October 1988 and stayed there for the next twelve months. This has reduced the attractiveness of investments to upgrade the country's gas utilisation capacity.

Table 4.3: Production of Natural Gas (mn m3)

Sources	1984	1985	1986	1987	1988
Gross production	5816	5830	7440	6960	8980
Marketed	4376	4200	5730	4780	6490

Source: OPEC, Annual Statistical Bulletin.

4.3.3 Petroleum Refining

There are three oil refineries in Kuwait, one at Mina al-Ahmadi built in 1946, which had a capacity of 250,000 b/d in 1985, one at Mina Abdullah, built

in 1958, with a capacity of 110,000 b/d, and the most recent of Shuba, completed in 1969, with a capacity of 195,000 b/d.

Kuwait has the third largest refining capacity in OPEC, after Saudi Arabia and Venezuela, and has undertaken a major modernisation programme at two of its three refineries, geared to making output suitable for export markets. Costing KD 1.32bn, this increased total refining capacity from 520,000 b/d to 670,000 b/d at the end of 1988-comprising 270,000 b/d at Mina al-Ahmadi, 200,000 b/d at Mina al-Abdullah and 200,000 b/d at Shuaiba. In July 1989 a 38,000 b/d isoc-racker unit came on stream at Mina al-Abdullah and a 1,300 b/d methylbutylether unit is being built at Mina al-Ahmadi.

Kuwait's increased exports of refined products are to feed its downstream retail network in Western Europe. This network has supplanted other markets in importance, in particular Japan and Pakistan, which accounted for 42 percent of Kuwait's refined product exports in 1979-83. KPC's purchases of overseas interests began in 1981, when it acquired the US oil engineering and exploration firm, Santa Fe International. The following year it started buying petrol stations in Europe from some of the oil majors, particularly Gulf Oil. After the purchase of a significant share in the UK in October 1986 and March 1987, KPG's total European network exceeded 4,800 stations in Italy, Sweden, Denmark, Belgium the Netherlands, Luxembourg and UK. It also owns ex-Gulf refineries in Rotterdam and at Gulfhavn in Denmark, and lube oil plants in Italy and the UK. In September 1986 KPC introduced a new brand name (Q8) for all its retail sales in Europe, where it is now a high profile distributor. In Denmark, for example, it is ranked second in terms of market share with 20 percent of the market, while in the UK its share is some 7 percent, based on purchases of the Hays Petroleum Services, Ultramar, Golden Eagle and Nafta networks. At the end of 1987 Kuwait's total overseas refining and retailing operations accounted for 250,000 bld. Between October 1987 and February 1988 the Kuwait Investment Office (KIO) bought 22 percent of the

shares of British Petroleum on the open market (a purchase which was referred to the Monopolies and Mergers Commission). The British Government decided to put a 9.9 percent limit on the KIO's stake in BP, so that 11.7 percent was sold at the end of 1988, albeit at a substantial profit. However, the pace of KPC's European acquisitions has slowed down since 1987, and in late 1989 KPC sold the engineering arm of its subsidiary, Santa Fe International. KPC has other overseas interests, including shares in Tunisian and Turkish fertiliser complexes, and a major prospective plant in China. Through Kufpec it holds exploration leases in a number of developing countries.

4.3.4 Petrochemicals

The first petrochemicals industry in Kuwait was a fertiliser industry set up in the late 1960's by PIC, which was then a joint venture between the government and private interests. The PIC's fertiliser division at Shuiba now operated three ammonia plants with a capacity of 1m t/y, three urea plants with a capacity of 792,000 t/y, one ammonium sulphate plant with a 165,000 t/y capacity and one sulphuric acid plant with a capacity of 132,000 t/y. PIC also has a salt and chlorine division at Shuwaikh producing salt, chlorine, caustic soda, hydrochloric acid, sodium hypochlorite, compressed hydrogen and distilled water. However, with the fluctuations in Kuwait's oil production, PIC faced a shortage of gas, its principal feedstock and experienced considerable difficulties as a result. Accumulated losses in 1982-86 were \$70m, which required the injection of \$108m of fresh capital in mid-1986. PIC's actual production from 1982/83 to 1985/86 (the latest year for which figures have been published) was well below capacity (in 1985/86 its ammonia plants operated at only 57 percent of their capacity), and its sales for the most part failed to match even this reduced level of production. The increase in oil production after 1987 has resulted in a revival in the petrochemical industry's fortune, with a large increase in ammonia and urea output. These

two are the only significant export products, with domestic sales accounting for a negligible portion of sales. There have been sporadic exports of sulphuric acid, sodium hypochlorite and caustic soda. In addition to its petrochemical capacity in the country, PIC has interests in a number of other countries, apart from its indirect interests through its parent KPC's purchase of Sante Fe International and CF Braun in 1981. PIC holds 49 percent of three Tunisian plants —two producing phosphatic and compound fertilisers and a third, industrial acids. It has 25 percent of a Turkish plant to produce ammonium nitrate and diammonium phosphate using ammonia feedstock from Kuwait and phosphoric acid feedstock from PIC's Tunisian plant. In addition it has 30 percent of a joint venture in China which is also planned to produce fertilisers using feedstock from the Tunisian plants.

Table 4.4: Petrochemical Output (000 tons)

Sources	1984	1985	1986	1987	1988
Ammonia	83.0	368.6	548.3	702.5	
Urea	548.9	595.0	736.8	856.6	832.0
Sulphuric acid	4.0	4.6		4.5	
Salt	20.3	20.5	26.2	35.3	31.8
Chlorine	7.9	9.2	11.6	14.3	14.4
Caustic soda	8.8	10.3	13.7	16.1	16.2
Hydrochloric acid (<i>mn gal</i>)	1.9	1.8	2.2	3.3	3.5
Sodium hypochlorite(<i>mn gal</i>)	1.8	1.8	18.6	25.3	22.7
Hydrogen (<i>mncub</i>)	39.1	42.6	37.7	19.7	4.2

Source: Central Statistical Office, Monthly Digest Of Statistics.

4.3.5 Aluminium Smelting

Kuwait, unlike its neighbours, is hesitant to undertake other heavy industrial projects, fearing for their viability and the excess of foreign labour which they

may demand. It has favoured, instead, joint projects with Bahrain, Saudi Arabia and other Gulf countries, agreeing on projects with the Gulf Aluminium Rolling Company and Gulf Petrochemical Industries Company to establish aluminium, ammonia and methanol plants of Bahrain.

4.3.6 Cement Industry

In Kuwait Cement Company which was established in 1968, with about 20 percent government share, is the major producer of cement in Kuwait. During the ten years, 1979-1989, local production of cement supplied about 50 percent of total demand in Kuwait.

From the early 1980s, the company started to export a considerable share of its production to neighbouring countries. The trade figures of 1988 show a ratio of 35 percent exports in the total domestic production of cement. By completing its third expansion, the annual capacity of KCC has reached 2,145,000 tons of normal resistant portland and white cement.

4.3.7 Other Industries

The government has done much to foster the growth of other industries in order to diversify the economy and to provide an alternative source of employment to petroleum.

During the period of the 1976-81 Five Year Plan, three industrial Zones were set up: at Shuaiba, Shuwaikh and Ahmadi. However, oil-related activities still contribute on overwhelming proportion of Kuwait's total industrial output. Despite efforts at diversification, petroleum's share of GDP rose from 61.1 percent in 1977 to 69.9 percent in 1980, before falling to around 50 percent in 1983. Other industries provided only 4.5 percent of GDP, or 8.6 percent of non-oil GDP, in 1982. An Industrial Development Committee existed for some years but was

replaced in 1979 by a new body with far-reaching authority over regulating industry, issuing licences and imposing protective tariffs. However, two new projects were approved in 1985: the construction of a 150,000 - ton capacity salt plant in Shuaiba, and a chlorine plant with an annual capacity of 27,000 tons.

Several factories supply consumer requirements, such as processed food and salt drinks, and there is a flour milling company. Many of smaller industrial projects have been promoted by the Industrial Bank of Kuwait (IBK), set up in 1973, which is 40 percent government owned. By 1984, however, four leading commercial banks had combined with IBK to form a more specific concern, the Industrial Investment Company (IIC), to make new investments. In 1983/84 these included a truck-assembly plant, the production of resins and paint additives, and the approval of schemes to produce polyvinylchloride pipes and fittings, and acrylic blankets.

During 1985 the government took a further step towards assisting local industry when it announced the introduction of protectionist trade measures for local industries which satisfy three criteria. Such industries should meet at least 40 percent of domestic requirements, should have a substantial added value or should contribute to national income, and the consumer should not be affected by any possible inflationary results of tariff protection.

4.4 BAHRAIN

4.4.1 Introduction

Prior to the discovery of petroleum in Bahrain, the archipelago's economy was one of the most prosperous on the northern shores of the Arabian peninsula. Traditionally, the livelihood of most of the population depended on agriculture, pearling and trade, and Bahrain's offshore pearl banks were reputed to be the best

in the region. However, with the discovery of economically exploitable petroleum deposits in 1932 and the simultaneous growth of the Japanese pearl trade, Bahrain became increasingly reliant on its reserves of petroleum and natural gas. Following the attainment of full independence in 1971, attempts were made to diversify the economy, and several large-scale industrial projects, some financed jointly with other Arab states through such bodies as the Qatar-based Gulf Organization for Industrial Consulting (GOIC), have recently come into operation. In 1981 the government launched a five year plan to revive industry by acquiring more sophisticated equipment and by establishing training schemes to encourage the use of more productive methods. In 1985 the government also announced an investment of BD 20,000 to revive the pearling industry.

4.4.2 Oil Industry

Bahrain was the first state on the Arabian side of the Gulf to produce petroleum in 1932, and the archipelago's recent prosperity has grown from the development of its hydrocarbon reserves. By 1935 there were 16 oil wells in operation and a small petroleum refinery was established at Sitra. Bahrain's average production of crude petroleum increased from 19,300 barrels per day (b/d) in 1940 to 57,000 b/d in 1965, and to 76,639 b/d in 1970. Output has subsequently decreased steadily from an annual total of just under 25m barrels in 1984.

Since 1968 much of Bahrain's output of crude petroleum has been supplied by the Abu Safa offshore field, which lies between Bahrain and Saudi Arabia, and the revenue from the field is divided equally between the two countries. Production at this field began to decline in 1980, although, since the imposition of Opec production quotas in 1983, Saudi Arabia has supported the Bahrain economy by maintaining production levels at Abu Saafa and making compensatory cuts at other Saudi fields.

In December 1979, the government, which formerly owned 60 percent of the Awali field, took over the remaining 40 percent from Standard Oil of California and Texaco, through the Bahrain National Oil Company (BANOCO), the main operator at the field. Part of the output is sold to the Bahrain National Petroleum Company (BAPCO). A major programme to explore for new sources of oil and gas was launched in 1981 in the hope of discovering small, commercially viable, sources of oil and gas that would prolong the country's diminishing energy but made no significant discoveries. Production at the Awali field fell to 15.3m barrels in 1987, compared with 15.5m barrels in 1986. Output over the next few years is expected to remain at about an average of 42,000 b/d. Banoco has announced plans to drill some 80 wells into the field in the period to 1992 as part of a \$60m project to maintain domestic output.

Table 4.5: Oil and Gas Statistics Summary

Sources	1983	1984	1985	1986	1987	1988
Crude oil production(b)	41840	41890	41920	42430	42000	42000
Gas production(mn cub)	14.4	15.2	17.4	19.9	20.4	19.9

Sources—The Economist Intelligence Unit. Country Profile, 1989-90.

4.4.3 Gas Industry

Bahrain is becoming an increasingly important producer of non-associated gas. Reserves, including those of the Khuff Zone which underlies a large part of the Gulf, are estimated at 263bn m³, allowing output to continue for 50 years at present production levels. The main outlets for gas are power generation, refining, the Alba aluminium smelter and the gas liquids plant operated by the Bahrain National Gas Company (BANAGAS). BANAGAS is 75 percent owned by BANOCO, with Caltex and the Arab Petroleum Investment Corporation holding 12.5 percent each. BANAGAS profits have been falling as a result of the drop in the

world price of LPG but capacity at the plant has been increased. The company's central gas plant was fully utilized in 1988, and processed a total of 56,783m cubic feet of associated gas (compared with 56,661m cubic feet in 1987). Output totalled 976,175 barrels of propane, 866,849 barrels of butane, and 1.13m barrels of naphtha. Contracts for the expansion of the plant's capacity to 280m cubic feet were awarded in the third quarter of 1988. Bahrain is a partner with Kuwait and Saudi Arabia in the Gulf Petrochemical Industries Corporation (GPIC) \$400m methanol and ammonia plant at Sitra, which was commissioned in July 1985 with a capacity of 1,000 t/d of methanol and ammonia, most of which is exported to Europe, other parts of the Arab world and the Far East. GPIC is considering building an additional \$100m urea plant.

4.4.4 Petroleum Refining

Bahrain exports oil products instead of crude and is therefore totally dependent on its refining capacity. Bahrain's own oil supplies can meet only 16 percent of the needs of its 250,000 b/d capacity refinery at Sitra and the remaining 84 percent is piped from Saudi Arabia. In 1981 the government took 60 percent participation in the Sitra refinery and its related facilities, with Caltex, the original owner, retaining 40 percent. A light isomate plant was added to the refinery in 1983 but plans for a hydrocracker have been postponed due to the rapid decline in profits at the refinery. When crude prices were low Bahrain was able to make substantial profits on its processing of Saudi Arabia crude. The price increases of 1979-80 hit the refinery hard. Average output fell from 259,000 b/d in 1981 to 197,000 b/d in 1982 for the first time in 18 years and in 1983 it fell again to 175,000 b/d. In 1984 production levels were maintained around the 200,000 b/d mark but prices fell. In 1985 the refinery processed an average of 180,000 b/d of crude oil, of which about 41,000 b/d consisted of Bahraini oil, the remainder coming from Saudi Arabia, and in 1986 output rose to an average of 245,000 b/d

but profits were adversely affected by the sharp fall in prices. In 1988 output rose by 2 percent on 1987, averaging 242,000 b/d.

4.4.5 Petrochemicals

Bahrain's petrochemicals investment has revolved around gas-based ammonia and methanol plants. The country has pressed ahead with construction of complex at Sitra to produce 330,000 tons ammonia and 330,000 tons methanol annually. It is owned by Bahrain, Kuwait and Saudi Arabia and operated by the tripartite Gulf Petrochemical Industries Company. The complex, which is already in operation was built by Italy's Snamprogetti.

4.4.6 Aluminium Smelting

The Arab world's most important aluminium smelters are located in Bahrain, where Aluminium Bahrain (Alba) produced its first ingots in 1971. Alba is now owned 74.9 percent by the government, 20 percent by Saudi Arabia, and 5.1 percent by Breton of West Germany (the government purchased Kaiser Aluminium's 17 percent stake in Alba in mid 1989). Alumina is imported from Australia and output is marketed by the Bahrain Aluminium Company (Balco). A record 183,804 tons of aluminium ingots were produced in 1988. Most of the output is exported to Japan and to other Gulf countries. In April 1988 Alba awarded an \$80m contract for the construction of the first phase of expansion of its Sitra smelter from 17,000 t/y to 195,00 t/y. A further expansion in capacity by 20,000-25,000 t/y is due for completion in 1991. In mid-1989 plans to double capacity to over 400,000 t/y were approved. They involve the construction of two new pot rooms with a capacity of 180,000 t/y. Higher world prices for aluminium products saw sales by Balco, the joint venture responsible for selling the Saudi and Bahraini shareholders entitlement to Alba output, soar to an all time record of \$359.5m in 1988.

Secondary industries based on the smelter are: Bahrain Atomisers International, which is jointly owned by the state and Breton Investments and produces 7,000 t/y of aluminium powder, Middle East Aluminium Cable (Midal), which was established in 1978 and now produces 25,000 t/y aluminium cables, and the Bahrain Aluminium Extrusion Company (Belexco) which is expected to be partially privatised in 1991 to finance the expansion of capacity from 6,000 t/y to 14,000 t/y. An aluminium rolling mill with a capacity of 40,000 t/y began production in 1986. This is owned by the Gulf Aluminium Rolling Mill Company (Garmco), which is a joint venture of the Gulf Organisation for Industrial Consulting (Goic), which comprises GCC states and Iraq, and the Gulf Investment Corporation. Initial capacity of 40,000 t/y of sheet and coil aluminium has been raised to 50,000 t/y, most of which is exported to other Gulf states. Production in 1988 reached 50,000 tons. The company has yet to make a profit, recording losses at \$13m in 1987 and \$5.3m in 1988.

4.4.7 Iron and Steel Industry

In 1981 the Bahrain Government attempted further to diversify the economy by forming the Arab Iron and Steel Company (AISCO), an offshore public shareholding company which started production in early 1985 but was closed 3 months later because order were so short that it could not function at even half its installed capacity of 4 mn t/y. Production started again in July 1985 in response to the orders from Indian and Australian companies, but the company was put into liquidation in 1986 following the accumulation of some \$200 mn in debts. The Gulf Industrial Investment (GIIC), a subsidiary of Kuwait Petroleum Company purchased Aisco's fixed assets and production restarted in 1988.

4.5 OMAN

4.5.1 Introduction

Oman's traditional industries were crafts such as silver working, ship building and weaving. New manufacturing industries have grown only slowly and still account for about 2 percent of GDP, although annual growth rates during the 1980s have been impressive. The main constraints on development have been the small internal markets and free import competition. Those industries which now exist are small to medium scale, with the exception of heavy extraction and refining industries (oil and copper) in the public sector.

To encourage small enterprises the government offers soft loans, cheap land and electricity, import duty exemption and government sponsored feasibility studies. National industrial development and trade exchange is also being supported by the GCC. The government, through the Ministry of Agriculture and Fisheries, has also funded Agro-industries, such as the Nuzwa and Rostag date plants and the Salalah banana packing plant. It is attempting to spread development by offering incentives for investment outside the capital area.

4.5.2 Oil Industry

Economic activity in the Sultanate of Oman is mainly influenced by developments in the oil sector. As the petroleum sector receipts comprise the bulk of government revenue, oil sector developments also have a strong indirect influence on the growth of the non-oil sector.

The main onshore concession is held by Petroleum Development Oman (PDO) which began life as Petroleum Concessions (Oman), a subsidiary of the Iraq Petroleum Company. From 1960 the company was owned 85 percent by Shell, with Partex owing first 15 percent and later 5 percent - the remaining

10 percent being taken up by CFP. From 1974 the shareholding was: Shell, 34 percent; CFP, 4 percent; Partex, 2 percent; the state, 60 percent, and since May 1980 the company has been registered in Oman. Between 1962 and 1964 PDO discovered three fields in the interior - Yibal, Fahud and Natih - which began to export in August 1967 through a 280 km pipeline and a coastal terminal at Mina al-Fahal north of Matrab. A fourth field, Huwaisah, came into production in 1971 and a group of smaller fields at Gihaba in 1975. A further field, Lekhwair, has been producing through a spur pipeline since July 1976.

After peaking at around 370,000 b/d in 1976 from the Central Oman fields, oil production declined as the need for secondary recovery increased, and the outlook appeared bleak. Nor did immediate relief from elsewhere look likely, as exploration and development in the south, in and around Marmul in Dhofar, had been delayed by the insurgency and by the area's isolation, as well as by the heaviness of the oil which had been struck. The picture changed, however, with rising oil prices and the attention of other international oil companies. PDO built a 450 km pipeline from Marmul to the main pipeline running from Qarnal-Alam to the Northern coast, and in 1980 the Marmul field was brought into production. Fields around Marmul were also developed at Amal, Birba, KawKab, Ranab, Qata, and Qaharir. Other fields further north were discovered and or developed, ie Rasha, Rima, Nimr and Karim West. In this area 1986 saw the opening of three more fields: Jalmud, Jalmud North and Jawda. More oil was discovered to be commercially exploitable in the area to the south and south west of the older central fields: Elf brought its Sahma field (in the western concession) on stream in 1980 (producing about 44,000 b/d by 1982), and a string of discoveries in 1983 added five fields to the list Zavliya, Wafra, Sayyala, Fayyadh and Suwayhat. The oil in these fields is light, at 50 API. In addition to the three southern fields mentioned above, four other fields were brought on stream in 1986: Barik, Fayyadh, Zareef and Runib. During 1987 a further eleven fields were brought on stream:

Hasirah, Warad, Simsim, Zahra, Ihsan, Jamil, Mawhoob, Dhiab, Thuleilat, Yibal Khuff and al-Burj. In January 1988 the Rajaa-oil field was discovered. It started production the same year at 2,500 b/d. Total production capacity, as a result of all this, is now over 700,000 b/d, boosted by the expansion of output in the Bahja fields (the 1983 discoveries) from 5,000 b/d to 30,000 b/d in 1988 thanks to improved supporting infrastructure.

The throughput capacity of the principal oil pipeline was expanded to 650,000 b/d by the end of 1986, with booster stations this could be raised to 11.1m b/d. In 1986 the storage capacity of the Mina al-Fahal terminal was increased to 3.6m barrels, and the Nimr development was opened. The latter is the third and largest production area opened in PDO's concession in the south, and the largest engineering undertaking since the early 1980s.

Oman now has about 57 producing oil fields - including the two main non-PDO fields of Sahma (Elf), and Safat (Occidental/Gulf). In 1987 PDO acquired a 48,600 Km² onshore concession in Dhofar, and another, released in 1986 by Amoco Oman Oil Company, covering 25,000 square km. The latter, consisting of an area north of the Kuria Muria Islands and one south west of Masirah Island, is PDO's first offshore concession, and brings the company's total concession area to about 217,000 km². Mostly as a result of PDO's achievements, known reserves have risen rapidly. At the beginning of 1989, total proven reserves stood at 4.17bn barrels. The current production cost averages around \$5/b. Of the other oil companies attached to Oman, the only ones extracting oil in significant quantities are Elf Aquitaine and Occidental (5,300 b/d and 5,700 b/d respectively in 1987). Japex, produced only about 100,000 barrels during the whole of 1987.

Production after the dip in the early 1980's (down to 282,000 b/d in 1982), peaked at around 600,000 b/d in the middle of 1986 and 1987. From February 1988, Oman declared a reduction in output to around 55,000 b/d in

solidarity with Opec. The move was designed to stabilise prices. The collapse of negotiations between Opec and non-Opec producers, however, on a joint cutback to help share up prices, led Oman to restore production to 600,000 b/d. Oman is not a member of Opec but taxation rates are parallel. Because of falling oil prices, the country started, in the autumn of 1985, to sell its oil to its contract customers at a price which was retroactively determined on the basis of average spot market prices for the previous month. On this basis the price declined sharply in the early months of 1986 to hit a low of \$8.2/b. in July. The average government monthly retractive assessment price for the first half of 1989 was \$16.08/b. Oil revenues, which totalled OR 458 mn in 1978, reached OR 1.5 bn in 1985 before falling to slightly below OR 1 bn in 1988.

Table 4.6: Oil Revenues, Production

Item	1983	1984	1985	1986	1987	1988*
Revenue (OR mn)	1277.5	1304.6	1510.0	928.9	1194.9	992.3
production (mn b)	141.9	152.4	181.8	204.3	212.5	226.6

Note: (*) Provisional

Sources : Department of Petroleum and Minerals, Petroleum Development Oman, Development Council.

4.5.3 Natural Gas Industry

According to official estimates, Oman's proven reserves of recoverable natural gas in late 1988 were 9.25 trillion cubic feet, containing 2.40 trillion cubic feet in associated gas, and 6.85 trillion cubic feet in non-associated gas. Most of the dry gas is produced at Yibal but extraction has also started at Fahud, Natih and Saih Nihayda in the north and Birba in the south. In June 1989, PDO announced its largest gas discovery for 20 years, in the Saih Nihayda area (near Qam al-Alam). The field's recoverable reserves are estimated at about 10 bn cubic

metres. A gas pipeline from the Yibal field to the outskirts of Muscat was opened in 1978 and provides fuel both for the power and desalination plants at Gihubrah and for the industrial area at Rusayl. After upgrading in 1986-89, its capacity is now 550mn cubic feet/d. A branch line was opened in 1981 from Ghubrah to Sohar to fuel the new copper smelter.

The Bukha field, off Musandam, discovered in 1986, can produce an estimated 60,000 b/d of condensate and over 400 mn cubic ft/d of dry gas. Gas output in 1987 was put at 4.65 bn cubic m. the utilisation rate of associated gas in 1987 stood at over 90 percent - up from a mere 5 percent in 1980.

Several important gas projects were completed at the same time as the pipeline from the Yibal field, including a NGL plant which produces some 3,500 b/d of gasoline liquids from associated gas. A big LPG plant is being built at Sohar and a smaller NGC plant has been opened at Saih Rawl. Others are planned for Fahud and Lekhwair. Gas is also used for oil recovery: an estimated 4,400 bn cubic ft will be required over the next 40 years.

4.5.4 Petroleum Refining

In Oman the existing oil refinery Mina al-Fahal went on stream in November 1982 to meet Oman's local requirements of refined petroleum products. Its capacity was expanded in 1987 from 50,000 b/d to 80,000 b/d. It is run by the Oman Oil Refinery Company with technical advice from Ashland Oil of the USA. The second plan calls for building another refinery having a daily capacity of 75,000 barrels by the year 1992.

4.5.5 Cement Industry

In Oman, the Company's Cement Factory at al-Rusail went on stream in 1984 with an annual output of 624,000 tons of cement. This Government owned

company is considered the largest industrial project carried out under the current Five-Year Plan. A similar project also went on stream in 1984 - the 210,000 ton cement factory at Raysut, near Salalah - using locally quarried limestone and gypsum. Whereas the Raysut works is only 20 percent government owned, the Rusail plant, the Oman Cement Company, is wholly government owned.

4.5.6 Other Industries

4.5.6.1 Building Material Company

The Building Materials Company was incorporated with a capital of OR 1.7million in 1979. The company manufactures cement blocks, bricks, concrete products, cement pipes and prefabricated building. In 1979 the company built two factories, one of them for the production of lime in Quryat and the other undertakes the manufacture of lime bricks in Wadi Aadi. The Quryat Factory has an annual capacity of 70,000 cubic metres of lime blocks, 30,000 tons of ordinary lime and 33,000 tons of hydrated lime. The Wadi Aadi lime brick factory has an annual capacity of 24 million bricks.

4.5.6.2 Readymade Clothes Company

This fully owned Omani Company set up a factory for manufacturing ready made clothes at a cost of OR 700,000. The factory, situated in Al-Uthaiba area, was built on an area of 1,380 square metres. Its facilities have an annual output of 480,000 pieces, which meets local requirements, in addition to exporting a large proportion of its products to Europe.

4.5.6.3 Dhofar Refreshment Company

The site of Dhofar Refreshment Company is located on the Thamrit Highway. Its operation started in 1980 with an annual production capacity of 184,306 crates of fizzy drinks and 45,198 boxes of fruit juice products. The company's soft

drinks factory was built at a cost of OR 871,826 and its working capital amounted to OR 69,178.

4.5.6.4 National Mineral Water Company

The Company's bottling plant is situated in Tanuf, near Nizwa. It became operational in 1979 and, after an expansion scheme completed in 1984, its annual production reached 2,400,000 cartons, each containing 12 bottles. During 1984 the bottling plant produced 2,160,000 cartons. The company facilities cost OR 1,823,400 to build and its working capital totalled OR 355,300. This company produces Tanuf and Jabal Akhdar mineral water.

4.5.6.5 Mining

Oman is relatively rich in minerals. There are extensive deposits of copper ore, estimated to total 12 m. tons, near Sohar, which are being developed at an estimated cost of \$12 m. by the Oman Mining Company (75 percent state owned) with aid from Saudi Arabia. A smelting complex capable of producing 3,000 tons a day of ore, smelted to 20,000 t/y of pure copper, was opened in 1983 and in 1988 some 16,000 tons were exported. In 1988 Japan committed itself to the funding of its own study of two new sites, together estimated to contain 3-4m. tons of copper ore. Preliminary surveys at Ibri in 1989 established that reserves were at least 8m. tons. Other deposits include chrome, lead/zinc, nickel, asbestos, high quality limestone, manganese, phosphate and some coal (near Sur).

4.6 SAUDI ARABIA

4.6.1 Introduction

The Saudi economy was originally based on subsistence agriculture, the livestock of the nomadic tribes and funds brought in by the annual pilgrimage to Makkah and Madinah. The discovery of oil irrevocably changed this situation, as

oil revenues became the chief source of government finance and foreign exchange, and oil production the dominant component of GDP. It was not until 1962 that the Saudi government really came to terms with its responsibilities for redistributing oil wealth, when Faisal (then crown prince) unveiled his reform programme. Although Saudi Arabia is deeply committed to free enterprise from a political and moral point of view, its economy policy has been decidedly interventionist, as the government has sought to persuade the private sector to move away from trade and craftsmanship towards industry and other sustainable productive activity. The development of self-sustaining private sector economic activity is proving an elusive objective, however, given the small size of the local market and the dependence of companies in the private sector on government contracts, government subsidies or both.

4.6.2 Oil Industry

Saudi Arabia's proved recoverable oil reserves at end of 1988 were estimated at 252,384m. barrels, equal to just under a quarter of the world's total known reserves. Most of these reserves are located in the Eastern Province and its offshore waters where the Arabian American Oil Company (now Saudi Aramco) operates. Aramco's concession area in Saudi Arabia covers 220,000 square km in six non-contiguous "retained area". All Aramco oil production is lifted from the vast Retained Area No 1, which contains the world's largest producing field, Ghawar, and the world's largest offshore field, Safaniya. Other major fields in the area are at Abqaig, Ain Dar, Berri, Zuluf, Khursaniya, Abu Safah (output shared 50:50 with Bahrain) and Qatif. In Retained Area No 5, south of the border with Abu Dhabi, there are two proved oil fields, Shayba and Ramla. Since 1987 Aramco has been encouraged by the Saudi government to explore outside its concession area, and in 1989 announced its first oil find in the Nejd.

Other oil producers in Saudi Arabia are Getty Oil and the Japanese

Arabian Oil Company. Several international companies have been involved in minor exploration ventures in conjunction with the state company Petromin. They include Tenneco, Erap, Eni, Phillips Petroleum, Sinclair and Natomas, but the groups have either relinquished acreage or lapsed into inactivity. Apart from the Eastern Province, areas along the Red Sea and in Central Arabia have been surveyed.

Saudi Aramco is responsible for 97 percent of all Saudi Arabia's crude oil production and all of the NGL. The company's predecessor, Aramco, began commercial production in 1938 and up to the end of 1988 cumulative production had reached 56.0 bn barrels. Saudi oil output grew rapidly during the 1970s, from an average 4.8m b/d in 1971 to an average 9.9m b/d in 1980, but the rise was not steady. The Arab oil embargo slowed this spectacular growth in 1974 and output actually fell in 1975, but in 1979, in the wake of the Iranian revolution, output was raised to 9.5m b/d. From early 1982 onwards a world glut of crude oil led to a decline in sales and production which has continued to affect Saudi output and marketing policies throughout the 1980s. During the first half of 1987 Saudi Arabia's operated under a quota of 4.1m b/d, which was increased to 4.3m b/d for the second half. Official OPEC prices were re-established on the basis of a market price of \$18/b which represented the average of seven crudes, rather than the price of Saudi Arabia's own Arabian Light crude only, as in the past. During 1988 Saudi Arabia again abandoned fixed pricing in its determination to sell its full quota of oil. In 1989 strong global demand for oil enabled OPEC to increase its quotas on two occasions, with Saudi Arabia's individual quota rising back above 5m b/d for the last quarter.

Until 1981 Aramco's crude petroleum was disposed of in five main ways: (i) by direct export as crude from terminals at Ras Tanura and Juayma, (ii) as

Table 4.7: Annual Production of Crude (m. barrels)

	Aramco	Getty Oil	Arabian Oil	Total	% change	Average production
1980	2525.3	28.5	70.0	3623.8	4.2	9.9
1982	2310.0	23.6	33.4	2367.0	-34.0	6.5
1984	1435.5	57.5	-	1493.0	-9.9	4.1
1986	1711.8	34.4	-	1746.2	50.7	4.8
1988	1803.7	35.2	24.9	1863.8	24.0	5.1

Source: Saudi Arabian Monetary Agency, Aramco.

throughput in Ras Tanura refinery, (iii) by twin submarine pipelines for processing in the Bahrain refinery, (iv) by pumping as crude in the 1,600 km Tapline link with the Mediterranean seaboard at Sidon and Tripoli in Lebanon, (v) by tanker or pipeline transfer to meet local requirements. The disposal pattern for Saudi crude changed dramatically in 1981 with the completion of Petroline, the 1,200km. crude pipeline from Abqaiq across the peninsula to Yanbu on the Red Sea, and with the cessation of all supplies to Lebanon via Tapline in 1982. Petroline had an initial capacity of 1.8m. bld, but this was doubled by 1986, and further expansion plans have been announced in 1989. Much of the crude oil is exported direct, from Yanbu, but some is transhipped to Sidi Kreir on Egypt's Mediterranean coast using the Sumed pipeline. From 1985 until 1989 Iraqi crude was also exported from Yanbu after linking up via a pipeline spur with Petroline in the Eastern Province, but in 1989 an independent trans-peninsula pipeline was completed for Iraqi crude, terminating at al-Muajjiz just south of Yanbu.

In 1988 Saudi Arabia entered an agreement with one of its former Aramco partners, Texaco, to become a partner in Texaco's US East Coast refinery and marketing network, thus securing a permanent lifting commitment for up to 600,000 b/d of its crude. Saudi Arabia continues to honour long term and large contracts

with its former US partners - Texaco, Mobil, Exxon and Chevron. Crude oil lifted by Getty Oil is delivered to Mina Sauef for export or for refining in the company's refinery. The Arabian Oil Company has an export refinery at Al-Khafji, and the company's crude production is either refined there for export or delivered straight to tankers at the same location.

4.6.3 Natural Gas Industry

In 1988 Saudi Arabia was estimated to have proved gas reserves of 77,294bn cubic ft, the fifth largest in the world after the USSR, Iran, Qatar and the USA. ARAMCO started commercial production of gas in Saudi Arabia in 1962 when it began extracting NGLs from oilfield gas and processing them at an NGL plant at the Ras Tamura refinery and export terminal. In 1977 ARAMCO installed gas separation and gathering scheme on the Berni field which was designed to process 6.2m. cubic metres of associated gas a year, and simultaneously worked as agent for Petromin on building the government's own Master Gas System (MGS). The scheme, completed in 1981, provides for the gathering of 3bn cubic ft/d of associated gas and the processing of this gas to extract ethane, methane, sulphur, LPG and natural gasoline - the ethane (375m. cubic ft/d) being made available as a feedstock for the Kingdom's ethylene crackers, the methane (2bn cubic ft/d) being used for fertilisers and methanol production and to provide fuel for desalination plants, power stations and other industrial projects, and the NGLs (300,000 b/d) being largely exported. The Shedgum gas separation plant was completed in 1980, the 300,000 b/d of ethane and NGL separated from the methane being piped to a secondary fractionation plant at Juayma for separation into 160,000 b/d of LPG and natural gasoline for export, and 160m. cubic ft/d of ethane which is piped to Jubail as feedstock for the petrochemical plants there. A twin plant on the huge Gihawar field was finished at Uthmanuja in 1981, and it is from this plant that the ethane/NGL stream is piped across the peninsula to Yanbu, using approxi-

mately 30,000 b/d of fuel in the pumping process. The two plants at Uthmaniya and Shedgum also produce about 2,500 tons of sulphur a day. The gas gathering system will be further enhanced by current work on harnessing gas output from the northern offshore fields of Zuluf and Marjan. During 1985 Saudi Arabia implemented schemes to harness just under 1bn cubic ft/d of non-associated gas, so ensuring the supply of fuel gas for Eastern Province industry by freeing the Kingdom from gas associated with fluctuating crude oil production.

4.6.4 Petroleum Refining

Domestic crude refining plants are situated at Ras Tanura, Jeddah, Riyadh and Yanbu. The Ras Tanura refinery has a capacity of 450,000 b/d, is owned by Saudi Aramco, and sells both to the local market and abroad. The Jeddah refinery is owned 75 percent by state interests (now Samarc) and 25 percent by the private sector, it has a capacity of 90,000 b/d. In addition, Samarc has acquired ownership of two refineries, previously 100 percent owned by Petromin: the Riyadh refinery which opened in 1974 with a 15,000 b/d capacity, now boosted to 120,000 b/d, and the Yanbu domestic refinery, opened in 1984 with 170,000 b/d of its eventual 420,000 b/d planned capacity installed. Samarc has also been given the task of rationalising three other Petromin projects: the Petromin Marketing Company (Dhahran), the North Jeddah Station (Petroject) and Petromin Services (Petroserve). Samarc is also in the process of acquiring Petromin's share in two operational export refineries and the Kingdom's only lube oil refinery, although these projects are to continue to operate under existing arrangements. The two refineries are joint ventures with Shell in Jubail and Mobil in Yanbu, both with export capacities of 250,000 b/d. A third export refinery at Rabigh (capacity 325,000 b/d) has been developed as a joint venture between Petromin and Petrola and was transferred to Samarc when it became operational, after long delays, in 1990. Mobil has a 30 percent stake in the 1.6m b/y lubrication oil refinery at



Jeddah.

4.6.5 Petrochemicals

Saudi Arabia has three major ethylene crackers, with a total capacity of 1.6 million tons a year, all of which entered the commissioning phase in late 1984, six months ahead of schedule. These companies are Arabian Petrochemical Co. (Petrochemya) at Yanpet, which is fully owned by Sabic, since Dow Chemical pulled out of the project in 1981; Saudi Yanbu Petrochemical Co. (Sadaf) is a joint venture with Mobil and Saudi Petrochemical company (Sadaf), which is a joint venture with Shell and Petrochemya located at Jubail.

The Yanpet cracker, which supplies feedstock to downstream units producing 290,000 tons of a linear low density polyethylene or high density polyethylene, started up in February 1985. The ethylene glycol unit (220,000 tons) came on stream a month later. In the initial stages marketing of most of the product from the Yanpet plants has been handled by Mobil.

The Petrokemya plant supplies ethylene to the Al-Jubail Petrochemical (Kemya) joint venture between Sabic and Exxon. This project has the capacity to produce 260,000 tons of linear low density polyethylene. The Petrokemya cracker also supplies ethylene to the Eastern Petrochemical Company (Sharq), a joint venture between Sabic and a Japanese consortium led by Mitsubishi. This complex moved into production ahead of schedule in the first quarter of 1985. Sharq has a capacity to produce 130,000 tons of LDPE and 300,000 tons of glycol. Some ethylene from Petrokemya is also to be supplied to the Sabic/Lucky Goldstar VCM/PVC plant was opened in 1986. This will produce 300,000 tons VCM and 200,000 tons PVC.

It is likely that the next round of chemical investment in the Kingdom will be dominated by the private sector. Sabic proposes to sell 75 percent of its

shares to private citizens, with the first 20 percent having been offered in 1984. The National Industrialization Company (NIC) which was successfully floated in November 1984, has proposals for several joint investments. Its major project concerns a \$300 million synthetic rubber plant to be built at Yanbu under a joint venture with France's Michelin. NIC also has plans for a polyester fibre plant based on ethylene glycol feedstock from the Sharq project at Jubail. Other private-sector ventures includes proposed pharmaceuticals production, involving Saudi Pharmaceuticals (SPC) in which NIC has a share. Hoechst has been linked with a drugs investment in Saudi Arabia.

An interesting private sector proposal revealed in 1985, was that by the Saudi firm, IDI Ltd, to construct a 50,000 ton titanium dioxide pigment plant at Jubail. This unit, which would use chloride route technology was built by Lurgi of West Germany and would supply local and exports markets.

4.6.6 Cement Industry

The construction boom in the Kingdom led to unparalleled demand for cement, as most of the new structures erected were concrete and cement based. Output from three cement plants located in Riyadh, Jeddah and Dhahran kept local supply and demand reasonably matched until 1973, with imported cement accounting for only 20 percent of total supply. By 1977 imports met 80 percent of total demand. Since 1977 several new cement plants have come on stream in Saudi Arabia and, by the time cement consumption peaked at 23.8m tons in 1983, the self-sufficiency ratio had improved to 35 percent. There are eight cement plants currently in full operation in Saudi Arabia, including the Saudi-Kuwait Cement Company, the latest to come on stream. All are owned on a joint stock basis, with sizeable loan contributions from the Saudi Industrial Fund.

4.6.7 Iron and Steel Industry

Table 4.8: Industrial Production of Sabc Companies. (000 tons)

Products	1984	1985	1986	1987a
Caustic Soda	-	120	b	450
Ethanol	-	200	b	300
Ethylene	-	928	b	1970
Ethylene Dichloride	-	190	b	560
Ethylene Glycol	-	310	b	580
Hdpe	-	190	b	
Ldpe	-	379	b	870
Melamine	-	14	-	20
Methanol	827	1287	b	1410
Nitrogen	-	82	-	146
Oxygen	-	55	-	438
Steel rod and bars	972	1017	1368	1519
Styrene	-	125	b	360
Sulphuric acid	73	84	972	100
Urea	862	865	-	930
Ammonia	-	-	-	500

(a) Upgraded capacities except for actual production for steel rod and bars. Total petrochemical production in 1988 was 7,815,000 tons, and total fertilizer production 1,960,000 tons.

(b) Total petrochemical production in 1986 was 6,654,000 tons.

Source: Saudi Arabian Basic Industries Corporation (Annual Report 1988).

The Saudi Arabian Petroleum Mineral Organization introduced the first generation of steel plants in the Gulf by establishing a steel rolling plant in Jeddah in 1966 with an annual capacity of 45,000 tons. The plant's capacity was increased to 140,000 tons in 1981. Another SABIC owned iron and steel plant, Hadeed in Jubail, has a production capacity of 850,000 tons annually.

4.6.8 Other Industries

In Saudi Arabia, the Saudi Industrial Development Fund had, up until 1985, provided finance for more than 1000 projects at a total cost of over \$10 billion. In 1984 and 1985 the Kingdom approved more than 300 industrial projects covering a whole range of industries - engineering, chemicals, food industries, building materials, pharmaceuticals, oil field equipment, among others. The number of factories that were in production in the Kingdom in 1985 was around 2,700 and covered 15 percent of local demand. By 1990 Saudi Arabia is aiming at producing 30 percent of its industrial needs locally.

The Saudi Government had identified some 25 secondary industries and around 80 light industries opened for investments utilizing the Kingdom's hydrocarbon and mineral resources. Businessmen who invest in these industries are granted attractive investment facilities by the various financial institutions in the Kingdom, including a 10-year tax holiday, low and favourable utility rates and exemptions from customs and import duties of raw materials. In addition to these incentives, the investors would also be given government priority in the provision of feedstocks and priority to sell their products to the government or to the domestic market.

4.7 UNITED ARAB EMIRATES

4.7.1 Introduction

The general economy of the UAE is based directly on oil and gas, largely from the major producer, Abu Dhabi, but still with some contribution from Dubai and, recently, from Sharjah and Ras al-Khaimah as well. The reliance on hydrocarbons and re-exports from Dubai, coupled with the headlong dash for development that followed the 1973-74 oil boom, has made for violent fluctuations in economic

growth over the past ten years. In the period between 1975 and mid-1977 the economy was marked by an usually high rate of growth. Gross domestic product, measured in 1980 prices, increased from Dh 17.1 bn in 1972 to Dh 71.2 bn in 1977. From 1977 to 1978 there was a period of sharp economic contraction, which showed itself most in the private sector economic of Sharjah and Ras al-Kaimah and, to a lesser extent, in Dubai. Economic activity started to pick up again in 1979-80. Political events in the Gulf, notably the revolution in Iran and the Iraq-Iran war, caused UAE oil revenues to rise suddenly from \$12.9 bn in 1979 to \$19.6 bn in 1980. 1982 saw a dramatic reversal in the oil exporters' fortunes, with UAE output dropping by over 18 percent from one year to the next and GDP (at 1980 prices) falling from Dh 109.8 bn in 1980 to Dh 98.4 bn in 1983. On Dp at current prices fell from Dh 117.5 bn in 1981 to Dh 85 bn in 1987.

The UAE government has attached prime importance to the development of suitable industries as a means of diversifying the country's economic base and reducing dependence on the export of oil, so both Abu Dhabi and Dubai embarked on major industrial projects during the 1970s.

4.7.2 Oil Industry

Oil is the mainstay of the UAE economy. It was discovered in Abu Dhabi first, at the offshore field of Umm Shaif in 1958 and at the Bab field onshore in 1960. The fields were developed quickly and Abu Dhabi soon became a major oil exporter in world terms. Oil was discovered in Dubai in 1966 at the offshore Fateh field, with production and exports starting in September 1969. The onshore oil and condensate Marghan field came on stream in 1983. Sharjah had a share in the small Mubarak field, off Abu Musa island, from the time this came on stream in 1974. At the end of 1980 Amoco made an oil and gas find at Sharjah's Sajaa field. Ras al-Khaimah was the fourth emirate to find and exploit oil. Its off shore Saleh field was found by Gulf Oil's local subsidiary in February 1983. The three

remaining emirates are still looking for oil.

Since quotas were first imposed on Opec members in 1983, the UAE has protested that its allotment took insufficient account of the size of reserves and production capacity, as well as the fact that there is more than one producing emirate, with the federal oil ministry in no position to exercise authority over the country as a whole. The UAE's output quota was put at 988,000 b/d in the first half of 1989, rising to 1,041,000 b/d in the third quarter and 1,095,000 b/d in the fourth quarter. The country has consistently exceeded this and average production in the first three quarter of 1989 was 1.8m b/d.

Table 4.9: Oil Production of the UAE's

Sources	1983	1984	1985	1986	1987	1988
Crude oil production(000 b)						
Total UAE*	1149	1069	1203	1370	1502	1433†
Abu Dhabi	788	701	788	955	1059	1013
Dubai	331	319	351	350	378	355
Sharjah	38	51	64	65	65	65
UAE oil exports(000 b)	1077	1037	978	1132	1250	1345

(*) Totals may not add exactly due to rounding. (†) Opec quotes 1,418 for 1987 and 1,510 for 1988.

Source— Petroleum Economist, Oil and Gas Journal, OPEC, Annual Statistical Bulletin.

Despite recent finds in the smaller emirates, Abu Dhabi will continue to dominate the scene in terms of production and reserves. It averaged production of 1,013,000 b/d in 1988, compared with about 355,000 b/d for Dubai and 65,000 b/d for Sharjah. In 1989 Abu Dhabi's production averaged 1,925,000 b/d and that of Dubai 425,000 b/d. Reserves at the end of 1988 were 98.1 bn barrels, of

which Dubai was estimated to account for 4 bn and Abu Dhabi for the remainder. Abu Dhabi is also, however, continually making new finds, especially offshore, or finding new structures in existing fields, even though exploration has been severely curtailed.

4.7.3 Oil in Abu-Dhabi

Of the companies involved in exploiting hydrocarbons in the emirate, three dominate the scene. These are the Abu Dhabi Company for Onshore Oil Operations (Adco), the Abu Dhabi Marine Areas Operating Company (Adma-Opco) and the Abu Dhabi National Oil Company (Adnoc). Until Adnoc's Upper Zakum field came on stream in 1983, over 90 percent of Abu Dhabi's oil production came from fields exploited by the first two companies, in each of which a 60 percent share is held by the state.

Adco, founded in September 1978, took over the operations of ADPC, which under its original title of Petroleum Development Trucial Coast (PDTC) won its 75 year concession from the ruler of Abu Dhabi in 1939. It was 23.75 percent owned by BP Exploration Company (Middle East), 23.75 percent by Shell, 23.75 percent by Compagnie Fransaise des Petroles (CFP), 23.75 percent by the Near East Development Corporation, and 5 percent owned by Partex, representing Gulbenkian interests. ADPC's first discovery was at its fourth well, at Bab, in December 1960, and its second was at Bu Hasa in 1962. Other commercial discoveries followed at Asab in 1965, Sahil in 1972 and Farm Yafur in 1973. In the meantime, however, ADPC had gradually been relinquishing parts of its original concession, retaining less than 40 percent by 1971. The Abu Dhabi government acquired its initial stake in ADPC in 1972 (at a time when participation agreements were reached between most Gulf countries and their concessionaries) and subsequently increased this from 25 percent to 60 percent in 1974. The present composition of ADCO is BP 24 percent, Shell 9.5 percent, Mobil and Exxon 4.75

percent each, Partex 2 percent and Adnoc 55 percent.

The second major company, Adma-Opco, took over from its predecessor, Abu Dhabi Marine areas, in 1977. Adma (one third CFP and two thirds BP) took over in 1955 a concession which had been granted to D'Arcy Exploration Company in 1953 to search for oil in all offshore and submerged areas now covered by the ADPC concession. Adma discovered oil at Umm Shaif in 1958, but the first shipment of Umm Shaif crude had to await the construction of an export terminal at Das Island, which was completed in 1962. A second Adma discovery at Zakum, in 1965, began production in 1967. Ownership of the company now stands as follows: Adnoc 60 percent, Japan Oil Development Company, 12 percent, BP 14.67 percent and CFP 13.33 percent. Of Abu Dhabi's existing, established, oil producing areas, the onshore fields of Bab, Asab and Bu Hasa have already been mentioned. Some of the more important offshore operations can be summarised as follows:

Umm Shaif and Zakum, are both operated by Adma-Opco and both export through Das Island. Crude output from these fields was 227,698 and 198,316 b/d respectively in 1981, falling to 134,000 and 72,000 b/d respectively in 1983. Subsequently production figures were not published but, after being cut in 1986 to 170,000 b/d, the total allowable output from the two fields was raised in mid - 1987 to whatever they could dispose of. This was around 180,000 b/d in the first half of 1988 and around 300,000 b/d in the second half.

Upper Zakum has production capacity of 500,000 b/d. The field is jointly owned by Adroc and Jodco but CFP was the contractor for the development. Output from Upper Zakum, a costly field to develop at a time when the oil price was already declining, began 1983 and by 1988 was around 300,000 b/d, although its production has always been particularly vulnerable to Abu Dhabi policy vis-a-vis Opec, and it was reported to have been cut to 100,000 b/d in the summer

of 1989.

Al-Bundug field, which came into production in December 1975, exports through a pipeline to Das. Production was erratic, with stoppages occurring in 1978 and 1979 due to the rise in the gas/oil ratio. Qatar and Abu Dhabi, which take an equal share in revenues from this field because of its location, pressurised Udeco (a group of Japanese Companies which owns one third of the Bundug Oil Company, with BP and CFP owning another third each) to carry out a water injection programme. This programme, which began in 1981 at a cost of \$300 m, allowed output from the field to reach 12,000 - 13,000 b/d in 1988.

Abul-Bukhoush field, which has been developed by a company of that name, is jointly owned by CFP (51 percent), Nepco Exploration (24.5 percent) and Kerr McGee and Amerada Hess (12.5 percent each). This field came into production in 1974. Allowable production was 60,000 b/d in 1986, but in November of that year production facilities were damaged in an air raid resulting from the Iraq-Iran war. It is now back on stream, producing around 40,000 b/d at the end of 1988.

The Umm al-Dalkh field, which is also limited to the Zirku terminal, was developed by the Jodco organisation. It came on stream in 1985 and at the end of 1988 was producing a steady 10,000 b/d. Udeco was set up in 1980 for the exploration and development of the Umm al-Dalkh, Sateh, Dalma and Jamain fields.

The Sateh field, also developed by the Japanese, came on stream in 1987; production at the end of 1988 was estimated at 15,000 b/d.

The Mubarraz field, discovered by the Abu Dhabi Oil Company (Adoco, comprising Munuzen Oil, Daikyo Oil and Nippon Mining and the Japan National Oil Company), came on stream in 1973 and is currently producing around 9,000

- 10,000 b/d. A company named after the oil field, set up in 1979 to explore a new 1,582 Km² area awarded to Adoc, is now producing 8,000 b/d from West Mubarraz field.

The Arzanah field was discovered by a group of US independents led by Amerada Hess (41.5 percent), Pan Ocean (31.5 percent), Bow Valley Industries (10 percent), Wington Enterprises (12 percent) and Houston Oils (5 percent), in an area relinquished by Adma. During 1988, the field was producing only 10,000 b/d, compared with its initial yield of 22,000 b/d registered when it came on stream in 1979.

4.7.4 Oil in Dubai

Oil was first discovered in Dubai in 1966 in an offshore concession by the Dubai Petroleum Company (DPC). This company was founded in 1963 by Continental Oil Company of the USA and Dubai Marine Areas (Duma) which, at that time, was two thirds owned by BP and one third by CFP. The Fateh field was found in June 1966, with production and exports starting in September 1969. In November 1970, a second field, Southwest Fateh, was found in 1973 and named Rashid after the ruler of Dubai. This came on stream in March 1979, producing oil and gas from six wells. A fourth field, Falah, started production in June 1978 and a fifth, the Margham onshore field, was discovered by Arco Dubai in 1982. Of these fields, Fateh has been most productive, with output averaging over 200,000 b/d, followed by Southwest Fateh with some 184,000 b/d. Falah and Rashid are both much smaller, yielding 10,000 b/d each.

4.7.5 Oil in Sharjah

Production of petroleum began in Sharjah in 1974, with the Mubarak field producing at the rate of 60,000 b/d. The field lies in a protocal area which is occupied by Iran, and in the north it lies in Iranian territorial concessions for

hydrocarbons exploration. Shajah has production and drilling rights, but shares production and revenue with Iran. Of the remaining revenue, 20 percent is shared with Umm al-Qawian and 10 percent with Ajman. The field has brought Sharjah revenues of around Dh 20m per year since then, apart from in 1975 and 1976, when the value of export was about Dh 30 m each year. During early 1986 a new \$100 m investment programme for the Muborak field was announced. This should expand Sharjah's output considerably over the next decade. Four consortia were responsible for exploration of production in the 1970's— Crescent Petroleum Company, Foreman Exploration, Reserve Oil and Gas and Amoco, which took over its concession in 1976. At the end of 1980, however, Amoco announced a major new onshore discovery of petroleum and natural gas. Exports of crude petroleum from this Sajoa field started in mid - 1982 at a rate of 25,000 b/d.

4.7.6 Oil in Ras al-Khaimah

Gulf Oil, which had been exploring for oil in a 2,000 Km² offshore concession was finally able to announce a significant oil find in 1983 : this marked a long awaited and fervently hoped for breakthrough for Ras al-Khaimah. Gulf Oil was awarded an option to carry out geodetic work in onshore areas in 1978 and was later granted coastal shelf areas as well. At the end of 1981, a 2,000 Km² offshore exploration concession was confirmed as having been awarded to a group led by Gulf Oil (37.5 percent), International Petroleum of Canada (22.5 percent), Windsor Resources of Canada (17.5 percent), Opic of Tawian (17.5 percent) and Petrokal (5 percent). Windsor Resources withdraw almost immediately, however, and the remaining partners increased their stakes.

Gulf Oil was taken over by Chevron in 1985, which in 1987 sold its share in the concession to the following partners: International Petroleum has 42.01 percent, OPEC 31.31 and Wintershall 26.68 percent. International Petroleum (IP), which is also involved in oil exploration of Oman's Musardam peninsula,

in 1987 signed a 2,000 Km² onshore concession agreement with Ras al-Khaimah and has since drilled several development wells. IP was joined in the middle of 1988 by the US Phillips Petroleum International Corporation Mid East with a 50 percent interest, and Swedish Petroleum Exploration Consortium with 7 percent, thus leaving IP with 43 percent. IP remains the operator.

4.7.7 Natural Gas Industry: An Overview

During the early 1970's much of gas produced in association with petroleum was flared off, but in 1977 an LNG plant in Das Island started recovering offshore associated gas, and soon afterwards plans were set in motion for a scheme to collect onshore gas. This scheme known as GASCO, began production in 1981, and by 1985 was producing 24,000 b/d of propane and 28,000 b/d of butane. In 1981 a new gasfield was found underlying the offshore Zakum oil field, and in 1984 exploration began in Abu Dhabi's share of the Khuff formation, though to be one of the largest offshore gasfields in the world. Abu Dhabi is also dominant in terms of gas, though not to quite the same extent as in oil. Its reserves were estimated at 5,197 bn m³ as of January 1988, compared with 311 bn m³ for Sharjah, 142 bn m³ for Dubai and 34 bn m³ for Ras al-Khaimah. By the end of 1988 the emirate's total gas reserves had fallen to 5,664 bn m³. Exploitation of non-associated gas has assumed some urgency in Abu Dhabi, however, because of the effect on gas projects of the decline in output of crude oil. The UAE's marketed production of natural gas stood at 18.58 bn m³ in 1988, remaining at around the same level that was reached in 1987.

4.7.8 Natural Gas in Abu-Dhabi

The state oil company Adnoc, set up in November 1971, has branched out in a wide range of upstream activities, including gas gathering and liquefaction, refining expansion and the acquisition of a sizeable tanker fleet. Besides its

shareholdings in Adco and Adma-Opco, Adnoc has a 51 percent stake in the Abu Dhabi Gas Liquifaction Company (Adgas), which it owns with BP (16.33 percent), CFP (8.17 percent), Mitsui (22.05 percent) and Bridgestone (2.45 percent). This company has built a \$550 mn plant on Das Island to produce 2.2 - 2.7 mn tons of LNG and 1 mn tons of LPG annually, as well as natural gasoline and sulphur, from offshore gas. Shipments from this plant began in 1977 with most of the LNG and LPG going to Japan, but since 1982 the plant has operated for much of the time at less than capacity because of the drop in Abu Dhabi's output of crude oil during the 1982-85 period. This in turn has prompted Adgas to seek to exploit non-associated gas, such as that obtainable from the Khuff formation offshore. Adnoc has also holds a 68 percent stake in Abu Dhabi Gas Industries (Gasco), along with Shell (15 percent), CFP (15 percent) and Partex (2 percent). Gasco runs a \$1.8 bn project at Ruwais to extract propane, butane and condensate from associated gas produced by the onshore Bu Hasa, Bob and Asab oilfields. The plant has the capacity of produce 4.75 mn t/y of LNG (1.22 mn t/y of propane, 1.4 mn t/y of butane and 2.12 mn t/y of natural gasoline), most of which is destined for Japan, but it too was adversely affected by persistently low oil production during 1982-85 and the Bab plant, as well as the field, was closed early in 1986. Plans to de-mothball Bab were announced in 1989.

There also appear to be major non-associated gas reserves underlying the offshore Zakum oil field, where a discovery well tested at over 75 mn ft³ a day. This is in addition to an earlier discovery, in 1979, of large reserves of non-associated gas in the Khuff formation underlying the Umm Shaif offshore field, where a discovery well tested at over 80 mn ft³ a day. The latter reserves are estimated at 100 trillion ft³, while those of the Thamama C and F formations of the onshore Bab field are put a round 90 trillion ft³. Thamama C gas came on stream in the third quarter of 1984 from a gas treatment plant at Bab with a capacity to produce 390 mn ft³ s/d of sweet gas, 960,000 t/y of condensate and

45,000 t/y of NGL. The gas is used for power generation by Abu Dhabi Water and Electricity Department.

4.7.9 Gas in Dubai

Dubai's associated gas was flared during the first few years of oil production but in 1975, after the 1973-74 oil price rises had made gas seem more attractive, the Dubai government set up its own body, the Dubai Natural Gas Company (Dugas), which is owned 80 percent by the Dubai government and 20 percent by Scimitar Oils, to exploit gas produced at the emirate's offshore fields, as well as gas from Sharjah. Technology for this purpose is provided by Scimitor, a subsidiary of Sunningdale Oils of Canada. Three of the wells at Rashid oil fields were on Dugas's behalf. Dugas facilities have been expanded to gather 150 mn ft³ /d of gas from Fateh, Southwest Fateh and Rashid and a second compressor platform was installed in 1986. A processing plant at Jebel Ali, which receives the gas, has the capacity to produce 700 t/d of butane, 9,000 b/d of condensate, 1,000 t/d of propane and 130 mn ft³/d of dry gas. A special gas terminal has been built at Jebel Ali port which can handle gas tankers of up to 48,000 tons. The plant was formally inaugurated in 1980 and began exporting the following year. Just over half its capacity, however, is geared to processing residual gas to supply the needs of Dugas's own generators, followed by those of Dubai itself and of the Dubai aluminum plant. A small proportion of the propane, butane and condensate produced is also consumed locally by the Dubai Gas Bottling Company, which supplies the local market. Dugos exports the remainder of its output to Japan. In 1989 Dugas signed an agreement with Arco to take some 460 mn ft³ 2f Mangham gas.

4.7.10 Gas in Sharjah

At the end of 1980 Amoco of the USA helped redeem the situation of

Sharjah with its discovery of the gas/condensate onshore field at Sajoa. By 1985 Amoco was producing some 60,000 b/d of low sulphur condensate and some 500-600 mn ft³ of gas. Sharjah took a long time to decide what to do with the gas, all of which now goes to the LPG plant, owned 60 percent by the Sharjah government, 25 percent by Amoco and 7.5 percent each by two Japanese concerns, JBC Corporation and Tokyo Bocki, which have responsibility for marketing. The plant produces 230,000 t/y of propane, 170,000 t/y of butane and 230,000 t/y of condensates. Of the dry gas, some 54 percent or 209 mn ft³/d, goes to Dubai Electricity's Jebel Ali power station and the rest to Emirates General Petroleum Corporation (EGPC). EGPC has built a pipeline network to take the gas to power stations in the other northern emirates.

4.7.11 Gas in Ras al-Khaimah

Cost over-runs on drilling were partly justified when the Saleh field was found offshore. The gas/condensate field came on stream in 1985 at a rate of 5,000 b/d and production briefly rose to 10,000 b/d before pressure problems asserted themselves. By 1989 production had fallen to negligible quantities.

4.7.12 Petroleum Refining

The government of Abu Dhabi has continually planned to develop its "downstream" production, and its first refinery, at Umm al-Nar, came on stream in 1976 with a capacity of 15,000 b/d. A second refinery, at Ruwais, went into operation in June 1987. The Ruwais refinery, which after expansion was originally planned to achieve an output of 300,000 b/d, was forced to produce temporarily at a capacity of only 75,000 b/d, after reduced demand had led to cutbacks in the scale of expansion. There are also plans for the refinery to be linked to a 27,000 b/d hydrocracker unit which was then under construction. In 1982 work began on a 60,000 b/d extension of the Umm al-Nar refinery and was completed

in 1984. In 1985 Abu Dhabi had a total refinery capacity of 240,000 b/d. Plans were announced in mid - 1989 to increase output at Umm al-Nar to 85,000 b/d and to upgrade Ruwais products with sweetening and de-bottlenecking projects.

4.7.13 Petrochemicals

During the 1970's there were several plans for the development of petrochemical industries in the UAE, but the only one to come to fruition has been the fertilizer complex at Ruwais, Ruwais Fertiliser Industries, of which two-thirds is owned by ADNOC and one-third by total - CFP. The \$350 million plant is geared to produce an eventual 1,000 tons per day of ammonia and 1,500 tons per day of urea. There is also an Organic Fertilizer Plant in Al-Ain and there are plans for boosting its daily capacity from 45 to 160 tons to meet local demand for organic fertilizers. There are also plans for setting up of a laboratory for carrying out tests on soil quality and fertilizer effectiveness.

4.7.14 Aluminium Smelting

Dubai Aluminium (Dubal), the largest non-oil industry in Dubai, commenced operations at the end of 1979. It was built at a cost of \$800m., and has an installed capacity of 135,000 metric tons of aluminium ingots per year. In 1987 it produced 106,000 tons, of which 77,347 tons went to Japan. Production amounted to 163,445 tons in 1988 and Dubal plans to increase production to 230,000 t/y with an additional pot line.

4.7.15 Cement Industry

The UAE has nine cement factories, three in Ras al-Khaimah (one producing white cement) and one in each of the other emirates, with a total capacity of around 8.5mn t/y. Local demand for cement was estimated at less than 2m tons in 1986, but discussion between the emirates on how to rationalize production

made little progress. So the cement surplus of the UAE reached 4 million tons by 1988. The new plant is owned by Ajman Cement Company which was set up with a paid up a capital of DH 225 million.

4.8 Industrial Cooperation amongst The GCC Countries:-

The blueprint for GCC industrial cooperation is contained in Article 12 of the Economic Agreement (EA), which calls on the states "to coordinate industrial activities, formulate policies and mechanisms aiming at the industrial development and the diversification of their productive bases on an integrated basis", "standardise their industrial legislation and regulations", and, "allocate industries between member states according to relative advantage and economic feasibility". Similarly, Article 13 highlights the need for the member states to "pay special attention" to the establishment of joint ventures in industry. Many of the specifics of these more general objectives were articulated in the more recent industrial development strategy, the GCC Unified Industrial Development Strategy, adopted by the member states in 1985 (See Appendix c).

The importance of harmonizing and codifying regulations relating to industry was echoed by the GCC ministers of industry during their first meeting in Riyadh in October, 1980. In order to establish a common base for such a codification process, however, action to standardize the various measures and procedures in the GCC industries was necessary. For this reason, at their second meeting in Taif in October 1981 the ministers proposed the creation of the Gulf Standards and Measures Organization (GSMO), as well as the establishment of an industrial data centre to be developed together with GOIC. The GSMO was formally established by the Supreme Council during its meeting at Doha in November 1982, though since its inception it has been little more than an extension of SASO. By February 1987, 53 common standards had been reached through GSMO.

It is not surprising that the GCC ministers of industry also embraced the principle of encouraging and protecting infant industries from the outset of the GCC. They agreed in October 1981 to assist local industries by using only national products in public projects. Measures to protect local industries, most especially cement, aluminium, steel, copper, and asbestos, have also been examined during the regular meetings of the industrial cooperation committee, leading to a call to the Supreme Council on 12-13 April 1985 to impose a 30 percent duty on cement, iron pellets, and aluminium imports. To date, no trade restrictions have been imposed on a concerted or GCC - wide basis.

The industrial cooperation committee has also sought to reduce intra - GCC competition through central planning. In particular, the committee has agreed not to establish any new cement enterprises or tyre manufacturing plants, as there were already sufficient numbers of such endeavors to meet regional demand. On the other hand, during its meeting in December 1983, the committee considered measures to encourage development in other industries, such as fibreglass and local processing, by requesting sector studies from the GOIC. Studies on the promotion of joint ventures in the areas of medicines, chemicals, and building materials have also been requested by the committee.

The long-term objective for industrial cooperation between the GCC states was elaborated in the March 1985 statement on Objectives and Policies of Development Plans in the GCC states. The statement called on the member states to "diversify sources of income by a gradual reduction of dependence on oil whereby its share in the gross domestic product and in financing current development expenditures is reduced, and increase the share of non-oil sectors (i.e. industrial) in the gross domestic product, general budget revenues, and export revenues in a way that compensates for reduced dependence on oil". Specifically, vertical and horizontal expansion of the petrochemical, gas derivatives, and

petroleum sectors and the expansion of the refining capacity for petroleum products were highlighted in the statement.

The ongoing efforts to codify priorities in the area of industrial cooperation resulted in the formulation of the Unified Industrial Development Strategy in November 1985. The strategy provides for industrial development among the member states, "suited to the potential and conditions of each state", aimed at narrowing the gap between them. This is yet another example of the compensatory nature of the GCC economic programme. Moreover, the strategy allows for integration between the industrial sectors of the GCC states, optimization of collective resources, and the development or research and applied science and technology capabilities such that "the contribution of conversion industries sector to the GNP" will be increased "to the highest level possible". Together, these are the areas toward which the GCC industrial programme will be directed.

4.9 Summary

Industrialization in the Gulf region has been progressing at a very rapid pace with governments spearheading the process through building a strong industrial base and related infrastructure that are conducive to the establishment of future industrial projects by the private sectors. The advancement of self-perpetuating industrial sectors is now widely perceived as being the most promising option to lead Gulf economic growth in the 1990s. The region has undoubtedly learned from the mistakes of the past and is taking measures to eliminate duplication and over-capacity problems that face certain existing industrial projects. Many investment decisions taken during the boom years, especially in the private sector, were often based on over-optimistic economic conditions and assumptions of long-term government protection and subsidies. Insufficient care was paid to the need for thorough feasibility studies.

Deficiencies of the sector may also be traced back to the lack of an overall industrialization strategy, bureaucratic obstruction , the nature of the industrial labour force (almost exclusively expatriate), unbalanced consumer consciousness, and the inadequacy of incentives at both production and export levels.

It has become evident that for industrial strategy to succeed, it should also take into consideration the need to develop manpower, services, financial and capital markets, engineering, maintenance, consultancy and research and development facilities. Only those projects that do not require long-term subsidies and protection to become commercially viable should be considered. A comprehensive strategic outlook for industrial development at both the national and regional level needs to be drawn up and implemented, encompassing such fundamental decisions as the relative priorities given to import substitution or export oriented industries. Priority should be given to those new projects ensuring complementarity with the existing industries. A sliding scale protection- tariff formula directly proportional to the ratio of value added of an industry to total value needs to be implemented, with infant industries benefiting from higher tariff rates and for a specific period of time only. Industries applying for protection should adhere to certain levels of specifications and standards and be able to compete in price and quality in the local markets. High prices of industrial products could harm the consumers and dampen future export potentials.

Furthermore, governments in the region could help promote private sector industries by having tenders drawn up in such a way as to favour locally processed products and part of Gulf governments' foreign aid might be provided in kind, which would then consist of domestic industrial products. Trading companies should be encouraged to take charge of part of the marketing responsibilities, so far assumed by the industrial units.

GCC cooperation policy has focussed on standards and the creation of a

Unified Strategy but these have not yet become dominant over national industrial strategies.

These are still the early days of Gulf industrialization. The GCC countries are trying to compress into a couple of decades what has taken industrial countries a century or more to achieve. The road ahead, therefore, remains long and challenging. This is not only because of the need to develop indigenous manpower and managerial skills that can handle ever-evolving technological advancement, but also to promote social values and attitudes that are not alien to industrial development. During the boom years of the 1970s and early 1980s, the sudden easy access to wealth created a consumer oriented society in which the relationship between productivity and reward was largely diluted. Self-fulfilment was, to a large extent, realised through purchasing power not through creative or productive ability.

Like other developing countries, an indigenous tradition of research and development in the region is still lacking. Research is considered to be more of an academic exercise than a vital ancillary to industry and transfer of technology. Without fostering an indigenous tradition for research and bringing forth a change in the general attitude towards employment in the productive sectors of the economy, manufacturing may become an "enclave" economic sector which provides income to the rest of economy but little productive development. It will be most unfortunate if current efforts to reduce the region's over-dependence on the export of a single commodity, namely crude oil, succeed at the expense of creating a perpetual dependence on foreign labour and technical expertise.

CHAPTER FIVE

Services Development in the GCC Countries

5.1 Introduction

The economic history of the Arabian Gulf states has passed through two periods: the first period is called the pre-oil period, which covered the time span before the possibilities of the existence of oil resources became known, and the second period called the oil period, which covers the period from when the first commercial oil exports began to the outside world.

Life was very simple before the discovery of oil in the Arabian Gulf region. At that time, the main resource for the Gulf region was the sea. The bare nature of the land and the lack of rain in the Gulf region meant that Gulf people had a hard struggle against nature. In Saudi Arabia they used to depend mainly on the revenue from customs, taxes and fees on pilgrims who converged annually from all over the world to visit the holy places, while the other Gulf states used to depend on pearl-diving, fishing, building boats and trading activities.

During this period, trade between the Gulf area and India, Iran, Africa and Iraq played a significant role in their economies in the nineteenth and early twentieth centuries, and its main centres were Kuwait and Bahrain.

The oil revenue of countries of the Gulf Cooperation is mainly channeled into educational, health and social services made available to the region's people. After decades of struggling to secure food and housing requirements, the discovery of oil gave the governments of the region the opportunity to begin planning for the provision of suitable housing, health and social care.

Modern transportation, improved communications and other amenities were also made available by the Gulf's developing welfare states. With increas-

ing wealth accruing from oil proceeds and the subsequent population boom, the G.C.C. member states realized the necessity of establishing adequate facilities to provide drinking water and electricity. In a desire to improve the living standards of the region, these states also began to build roads, construct houses and schools in addition to providing gardens, playgrounds, and improved postal services.

Prior to any organized cooperative planning (i.e. the GCC), certain Gulf states, due to the lack of adequate financial surpluses were unable to implement these development projects, therefore, a number of Gulf countries, such as Kuwait, extended educational and health services to needy sister states. This type of cooperation was formalised with the setting up of the Gulf Cooperation Council. With the GCC's formation, leaders and officials of the six states expressed deep concern with boosting cooperation in the fields of education, information, health, housing, transport and electricity and water supplies, in addition to developing joint interest in such fields as youth and sports. The GCC leaders wanted to coordinate all these activities. Despite achievements in all these areas, the region continues to face the challenge of building up a Gulf spirit, with which Gulf citizens would realise their roles as both providers and beneficiaries of services and as owners of the means of production. This aspiration, however, can only be achieved through improved education systems in which local cadres could qualify in the necessary fields, so that their talents and capabilities would be developed. This is the only way to compensate for existing shortages of national expertise and improve performance in this sector.

5.2 QATAR

5.2.1 Introduction

Before the discovery of oil, Qatar's pearling industry was the mainstay of the economy. During the 1930s Japan began producing and marketing cultured

pearls, an action which had disastrous effects on Qatar's earning potential. Thus, Qatar has already experienced the difficulties which can result from overdependency upon a single resource. The discovery of oil was welcome, indeed, for it came immediately after the slump in the pearl market.

5.2.2 Education Services:-

Education in Qatar is free but not compulsory. The first primary school was established in 1952. At that time there were 250 male pupils, taught by 6 teachers at one school in the capital, Doha. By 1971, state schools were providing for 17,500 primary and 5,000 secondary pupils. By 1986 the school population had risen above 50,000, about 60 percent of whom were studying at primary level. There were 165 schools in 1985 and another 37 were planned, although only ten of these looked likely to be built in the immediate term. Qatar University was established in 1977. The first students graduated in 1981 and by 1986 the number of students studying at Qatar University and overseas was put at 5,000. A new campus is being built, the first phase of which was completed in mid-1985, with a view to accommodating 3,000 students. However, a women's science faculty was among components of the university project postponed in 1986.

There is an important regional vocational training centre which offers courses in industrial skills up to City and Guilds standard in addition to a College of Trade and Industry. Some 500 students a year enter industrial training and professional institutions. The Ministry of education has also given more attention to adult literacy education programme. The number of persons attending evening schools and anti-illiteracy centres was about 5942 in 1986/87 which is 9.9 percent of the total enrolled in the pre-university levels.

5.2.3 Health and Housing Services:-

Health services have been planned in Qatar in the form of providing facilities for curative and preventive medicine. Health services in Qatar are provided to all residents in the country free of charge. This includes medical, dental and surgical services.

There are now over 1,000 hospital beds, including 464 in the main hospital at Doha and 600 in the Hamad General Hospital which opened in 1979. A new women's hospital with 310 beds was completed by the end of 1987. Further specialist hospitals and health centres are planned. An incipient drug problem has recently been recognised among the young and this has encouraged the government to increase spending on leisure and extra-curricular educational facilities.

Housing Services:-

Qatar has one of the most advanced and extensive welfare systems in the Gulf and is committed to ensuring that oil wealth benefits all Qatari citizens, although, when oil revenue began to plunge in 1986, various plans for additional schools and hospitals were shelved. The government invested heavily in the 1970s and by the early 1980s nearly all the major infrastructure was in place. The capital, Doha, houses 80 percent of the population and the industrial centre of Umm Said, 40 Km south of Doha, is being extensively developed. A new town is planned for Ras Laffan in the north east, near the site of a huge offshore gas development, although initial plans have been scaled down considerably.

5.2.4 Information and Tourism:-

The mass media, which consists of the press, Qatar News Agency, radio and television, provide information regarding international and local issues to the people of Qatar. There are several Arabic and foreign language daily newspapers

and other periodicals. Two television channels provide a variety of programmes in Arabic and other languages, while AM and FM radio broadcasts are made in Arabic and English.

The Ministry of Information, which was established in April 1972, controls the media and lays down broad guidelines which they should follow in their productions. The Ministry of Information also publishes its own periodicals which provide information relating to social and cultural activities in Qatar and the Arabian Gulf region. The formation and implementation of government policy is communicated to the general public through the media.

Cultural facilities such as museums, theatres and amusements parks, also make a contribution to the forces of cohesion in any nation. The past achievements of the country in these fields are preserved so that they may stimulate future generations.

5.2.5 Transport and Communications:-

5.2.5.1 Roads:

A network of some 900 km of good roads, some dual carriageway, provides a ring road system and links Doha with Ruwais in the north, Dukhan, Umm Said and the frontier at Salwah. There is now a continuous land connection with Europe, so that it is possible to drive on a surfaced road from the English Channel to Ras al-Khaimah or Muscat via Qatar, the average journey taking about twelve days.

5.2.5.2 Ports:-

Doha's deep water port, completed in 1970, was extended in 1977 but Umm Said port handles the bulk of industrial goods and oil. Umm Said has nine berths, as does Doha, comprising five deep water and four shallow water facilities.

In some ways Qatar's ports have been overshadowed by other Gulf ports which can offer deeper draught and better container handling facilities. By the end of 1985, however, the decline in new construction projects adversely affected imports and port traffic. This trend continued in 1986 when a 12 percent drop in unloaded cargo was reported during the first half of the year, and during the same period in 1987 an even more dramatic fall, of 38 percent was reported. A new ship repair yard owned by the Qatar National Navigation and Transport Company opened in Umm Said in 1982. Its facilities include a floating dry dock capable of handling vessels up to 8,400 tons.

5.2.5.3 Airports:-

There is an international airport at Doha. Some 17 airlines serve the airport, which provides regular air links from Doha to destinations in Europe and Asia as well as other parts of the Middle East. Plans for a new international airport west of Doha, with a runway of nearly 15,000 ft., were postponed in 1980.

5.2.5.4 Telecommunications:-

The internal telephone service 99 percent state owned has been extended in stages from 18,000 lines in 1975 to 120,000 in 1989. Direct dialling is available to 170 countries, including the USA and Western Europe, as well as to other parts of the Gulf. An earth satellite station has been built and a second satellite link-up, to provide access to North America and Europe, opened in February 1985. A third link up to Arabsat, the Pan-Arab satellite system, was due to open in 1985, but was delayed. A maritime communication station was completed in early 1985. A microwave repeater tower on the border of Saudi Arabia was opened in 1983 providing 920 telephone circuits, one television and one radio channel between the two countries. Plans to extend the connections to Kuwait, Iraq and Jordan have been shelved. A submarine cable link to Bahrain and the UAE was

completed by the end of 1984.

5.2.6 Insurance and Banking:-

The existence of a sound and organized banking system will discourage people from hoarding cash balances. It is natural that individual savers would be willing to increase the return on their savings by depositing them in banks, and earning interest.

Qatar has not so far attempted to become a financial centre like Bahrain but it does have 14 banks. Four of these are entirely locally owned: the Qatar National Bank, the Doha Bank, the privately owned Commercial Bank of Qatar, and the Qatar Islamic Bank. The great majority of Qatari banks' activities centre on issuing letters of credit and providing loans to the private sector undertaking government projects. The National Bank holds nearly 50 percent of deposits and handles most of the government's business. It also has some of the functions of a central bank, although it shares these with the Qatar Monetary Agency, which sets interest rates. In 1980, as a result of the flow of capital out of Qatar, interest rates were revised upwards to a maximum of 9.5 percent on loans and 7.7 percent on deposits. However, these were revised downward by 1 percent in 1986. The rates have remained below world levels and capital continues to flow out. The Islamic Bank was in part designed to help attract local money into the local banking system. Since over 90 percent of revenues in Qatar stem from the government, the banking community is heavily dependent on government spending. In 1983 when the government stopped, or delayed, payments on several large contracts, Qatari banks suffered from an acute liquidity crisis. This was alleviated in 1984 when government revenues increased. The Qatar National Bank provided support to the smaller local banks during the 1983 liquidity crisis. There have been mixed results on banking profits in the period since then. The Qatar Islamic Bank posted a four-fold rise in net income in early year 1987/88. The government's failure to produce

a current budget for 1986 added to managers' concerns, but results were mixed, as they were in 1987. However, results have subsequently improved and apart from a slight drop at the Commercial Bank of Qatar attributable to an exceptional item, the locally owned banks reported improved profits in 1988. Problems with bad debts and strict control of government spending have constrained new lending, while Qatari banks are attempting to expand into the retail market. The National Bank is now also going into international syndications, acting as an agent for the government's \$200 mn syndicated loan.

Growth in money supply has been erratic since 1980 and money supply M1, comprising currency in circulation and demand deposits, contracted by 31 percent in the year to the end of September 1988 as a result of a fall both in demand deposits and in currency in circulation.

Table 5.1 : Monetary Indicators (QRmn, end period)

Sources	1983	1984	1985	1986	1987	1988@
Currency outside banks	1,068.4	1,186.4	1,120.0	1,287.8	1,248.7	1,163.4
Demand deposits	2,556.1	2,948.1	2,896.7	3,199.4	3,529.7	2,132.5
M1	3,624.5	4,134.5	4,016.7	4,487.2	4,778.4	3,295.9
Time and savings						
deposits	4,863.2	6,219.5	7,288.7	8,081.7	8,871.5	9,163.9
M2	8,487.7	10,354.0	11,305.4	12,568.9	13,649.9	12,459.8

@ - End September 1988

Source: IMF, International Financial Statistics.

Insurance:-

In 1980 Qatar, together with Libya, Kuwait and U.A.E. took part in a new international insurance company, the Arab Insurance Group (Arig), based in Bahrain and capitalised at \$3 bn. The participation of the government reflected

concern about the war risk premiums issued by Lloyds of London and U.S. insurers on business in the Gulf. The Qatar Insurance Company is locally owned and includes a 20 percent state holding.

5.2.7 Electricity and Water:-

Water supply in Qatar depends on the desalination of sea water, since sufficient sweet water is not available. The production of water and its distribution is entrusted to the Water Department of the Ministry of Electricity and Water. Qatar's power needs are supplied by two major power stations. One at Ras Abu Aboud has a capacity of 210 mw and 11.5 mn g/d of distilled water. Another, at Ras Abu Fontas, came into full operation in 1983 with a total generating capacity of 1,150 mw and desalination capacity of 48 mn g/d. Another power and desalination plant is to be built at Wusail. When completed, it could provide 1,500 mw of power and 10 mn g/d of water but work on the plant has been delayed by budget constraints, though bids were sought in mid 1989 for the construction of an additional 250 mw of generating capacity and 10 mn g/d of desalination capacity, for completion in 1991 and 1992. Local power demand, however, was expected to have risen to 1,350 mw by 1988, compared with 730 mw in 1983. Desalinated water provides the vast majority of Qatar's drinking water and water consumption is estimated at around 50 mn g/d. Pending completion of the Wusail complex or some alternative, such levels will stretch local desalination capacity to its limits.

5.3 KUWAIT

5.3.1 Introduction

Before the discovery and export of oil, the Kuwaiti economy depended on fishing, pearl-diving, seafaring, boat-building, herding and trade. These were

the pillars of the Kuwaiti economy, from its establishment in the 1670s until the outbreak of the Second World War.

5.3.2 Education Services:-

The youth of the Kuwaiti population imposes special demands upon public services. The state's commitment to a comprehensive education system represents one of the most important responses to this challenge. Kuwait's first school was established in 1912, and education has been treated as a priority for most of the modern era. Kuwait is a nation heavily involved in learning and acquiring the skills needed for the next century. Children entering schools can look forward to a process that leads a growing proportion to recognised academic and technical qualifications. For many, higher and advanced education is a practical reality.

Education is compulsory and free from the ages of six to fourteen, and there is an active literacy campaign which by 1985 had reduced the illiteracy rate to 9.9 percent among Kuwaiti men and 24.1 percent among Kuwaiti women.

Higher education has a two-decade history. Kuwait University was opened in 1966 with a single faculty. Today, there are now 17,047 students, and the university provides education in a wide range of disciplines to a high level. A large number of Kuwaitis continue to leave the state to pursue higher education, but the long-term objective is to provide most of the training needed in the country.

Vocational training has been emphasised in the past decade as the government recognised the need for technically qualified, as well as academically qualified staff. A series of vocational institutes have been established. In 1982, the Public Authority for Applied Education and Training was established.

The Public Authority is responsible for drafting plans and training schemes for the whole economy. Specific training centres include the Telecommunications

Training Institute, the Aviation Institute and the Fire-fighting Training School. In the 1986/87 academic year, more than 10,000 trainees were enrolled in programmes at these centres.

5.3.3 Health and Housing Services:-

Health care is free for all residents, and life expectancy in 1987 was 71 years for men and 75 years for women, among the highest in the Arab world. Kuwait, which adopted the health registration system, constructed a clinic in each area so that the citizens enjoy easy access to medical services, with those clinics preserving medical files for each family to facilitate monitoring of the patients health and any possible hereditary diseases.

The Ministry of Public Health was established in 1962 to meet the increasing and divergent medical needs. It comprised a considerable number of well-qualified medical cadres and sought the assistance of consultants in the various medical spheres upon the establishment of the state's health service facilities. The Ministry efforts in developing health services were manifested in the number of hospitals which had increased from 8 in 1961 to 17 in 1989 as well as the proliferation in the country's poly-clinics which went up from 32 to 45 during the same period. In 1988, a total of 8,446,989 people received treatment in Kuwait by 362 medical doctors at 56 different centres, with 900 work hours per day. Child care centres offered, during the same year, services to approximately 2.5 million people, while mother care centres served more or less 300,000 pregnant women and extended 192,000 consultations in cases of gynaecology. The number of physicians working in the country's public health institutions was at 2,842 in 1988, averaging one doctor for each 200 people in comparison with 1961 statistics, which showed that there had been a single physician for about each 1,000 people. Beds also increased from 2,158 in 1961 to 8,000 in 1988.

Kuwait's Medicine Plant, which was established in 1966.

The plant currently covers all the country's needs of the kinds of medications produced by the factory and 13 percent of the Ministry's requirements of medicine in general.

Housing Services:-

Housing is one of the major issues faced by Kuwaiti society due to the fact that it directly touches upon the lives of broad sectors of citizens, especially the young generation and the newly-formed families. The government, in fact, vowed to handle the housing problem some years before the independence, commenced to scrutinise providing citizens with housing facilities.

In the light of studies and researches conducted by Social Affairs and Work Ministry, government houses were distributed among three groups of citizens, those nominated by the committee members from the limited-income people, provided that the nomination be approved by the rest of members, people who are temporarily granted houses until construction of their land plots or purchase of substitute houses instead of demolished ones, and citizens who cede their right to obtain land plots.

The Credits and Saving Bank was brought into being to grant housing loans for citizens who would rather purchase constructed houses, and for those who have state-allocated or privately-owned land plots and for people intending to expand or rehabilitate their houses. The Bank extends loans to limited-income people who intend to construct additional storeys or annexes to their houses.

The Housing Public Authority gave priority to planning and zoning to guarantee proper landscaping, on the one hand, and to make sure that citizens

are equally accommodated on the other. A total of KD 706 million were allocated for the Authority in the first Five-Year housing plan, which enabled the Authority to implement a number of housing units, including 9,696 Arab-style houses. The Authority started its second housing plan (1981-85) with an ambitious step that aimed at establishing 36,000 residential units, and vowed that it would spare no effort to quicken the pace of accomplishment and development in the accompanying services and utilities.

5.3.4 Information and Tourism:-

Radio and television are state controlled and, until 1986, there was a relatively free, privately owned national press. After the parliamentary dissolution, however, a strict press censorship law was introduced, and the press has been effectively turned into another state controlled medium with censors working inside the newspaper offices. A number of newspapers run supplements or sister papers in foreign languages to serve the large expatriate community. One of the most respected dailies, Al-Qabas, started an international edition in 1985, with facsimile and printing facilities in London. There were seven daily newspapers in 1987. In 1984 their combined circulation was 283,000, equivalent to 208 copies per 1,000 of the population. In 1984 there were also 710,000 radios and 575,000 televisions. The advent of video recorders has inflicted heavy damage on the cinema sector, where the number of visits dropped from 6.3 mn in 1978 to only 0.9 mn in 1987.

Tourism:-

The question of leisure facilities posted a challenge, but Kuwait overcame this by recognising that leisure pursuits are essential to give the population a complete change from the mundane, work-a-day existence. The problem of providing facilities for the young has been taken very seriously and recreational activities have been on the increase.

In former times Kuwaitis had their own popular pastimes such as falconry and hunting in the desert for the hubara bird, and the diwaniyah, the meeting place for men (which still remains in spite of all the other social changes). The rapid growth of Kuwait's population, coupled with its long summers, has made leisure activities and tourist services an essential aspect of city life. Recreational programmes in the summer were initiated by the late Saleh Shehab, a pioneer of the recreational movement.

Today Kuwait has a wealth of recreational facilities - gardens, beaches and even appearances by international artists organised by both the government and by private enterprise. The people in Kuwait today have access to several modern leisure areas.

The Touristic Enterprises Company, which is 92 percent government owned and 8 percent owned by investment companies, manages several tourist enterprises, such as the famous Kuwait Towers, the Ice-Skating Rink, the Five Sea-clubs, and the new tourist complex in Failaka established on an area of 5 million square metres. The company also administers Entertainment City at Doha and the two rest-houses at Salmi and Nuwaiseeb, and supervises a modern fleet of ferries that carry passengers from Ras Al-Ardh harbour to Failaka Island. It is also responsible for Kuwait's three public beaches and their amenities, and for Shaab garden, with playground facilities for children, in addition to the Musical Fountains. Finally, mention must be made of the two zoological gardens, the sporting facilities of Kuwait's hotels, the public cafes as well as other recreational projects, all of which provide the population with many opportunities for enjoyment and relaxation.

5.3.5 Transport and Communications:-

5.3.5.1 Ports:-

The two commercial ports of Shuwaikh and Shuaiba (Doha) have been expanded, but further expansion of Shuwaikh, originally planned to cope with the large re-export trade, was shelved for the duration of the Iran-Iraq war. Traffic through the ports fell from the peak levels of the early 1980s, with total ship departures dropping from 3,094 in 1984 to 2,295 in 1987. But the following year saw a good recovery. Shuwaikh, which handles half the country's shipping movements, recorded an increase in tonnage to 3.2 mn tons, compared with 3 mn tons total tonnage recorded by Shuwaikh and Shuaiba in 1986. Total tonnage handled by the two ports in 1988 increased by 20 percent to 7.3 mn tons. Re-exports accounted for about one quarter of the tonnage of total sea imports in 1981 and 1982, but by 1987 this had fallen to 1 percent.

5.3.5.2 Airports:-

Kuwait's international airport was completed in 1979, and a second runway was subsequently built. There are preliminary plans for a second airport to be built in the 1990s, although a stopgap expansion was completed during 1986 with the refurbishing of the old terminal building to serve as a second terminal for flights to Arab and Asian destinations. Although passenger traffic declined from a peak of nearly 4 mn in 1978 to 2.9 mn in 1985-87, freight traffic increased steadily and stood at 86 mn Kg in 1987, the main growth coming from outgoing freight. The state owned Kuwait Airways Corporation (KAC) was one of the first purchasers of the Airbus, of which it has five, in addition to 13 Boeings. After preliminary talks on a possible merger between KAC, Saudia and Gulf Air were aborted in 1986, KAC went ahead with plans to expand its fleet. At the end of 1989 it was considering the purchase of four aircraft.

5.3.5.3 Roads:-

Roads in Kuwait City and to other main towns are good, and were improved in a major 330 Km scheme completed in 1988. Traffic congestion in the city is severe, despite the existence of many flyovers. There were 564,410 vehicles in use at the end of 1987, of which 424,554 were private cars.

5.3.5.4 Telecommunications:-

The telephone system is good, with 254,826 telephone subscribers in 1987, equivalent to 136 per thousand of the population, and work is in hand to increase this to more than half a million. A computer linked directory enquiry service came on line in 1982 and the mobile telephone system was privatized and enlarged from 4,000 lines to 25,000 lines in 1987. Another new development is fibre optics: a pilot scheme with 1,920 channels has linked the city to Mishref since 1983. A pilot video-text scheme with 1,000 business lines and 300 residential lines was started in 1984 using French technology. In 1985 Kuwait agreed with its G.C.C. partners to standardise all telecommunication charges.

5.3.6 Insurance and Banking:-

Besides the Central Bank, the financial sector in Kuwait comprises seven commercial banks, namely: National Bank of Kuwait, Commercial Bank of Kuwait, Gulf bank, Al-Ahli Bank, Bank of Kuwait and the Middle East, Burgan Bank, Bank of Bahrain and Kuwait (Branch), as well as three specialised banks, namely, Credit and Saving Bank, Kuwait Real Estate Bank, and the Industrial Bank of Kuwait. There is also the Kuwait Finance House which is run in accordance with Islamic law, and while technically not a bank (i.e. under Central Bank supervision) it performs a number of banking functions. Apart from the local banks, there are 28 investment companies operating in Kuwait and subject to Central Bank supervision and 79 exchange companies, of which 18 are under Central Bank

control. In addition a number of insurance companies and agencies are operating in the financial market, five of which are Kuwaiti, while others are owned by Arab and foreign companies.

Table 5.2 : Monetary Survey (KD mn).

Sources	1983	1984	1985	1986	1987	1988
Net foreign assets	1,966	2,134	2,235	2,341	1,980	1,604
Claims on private sector	4,753	5,045	5,068	5,156	5,473	5,659
Claims on government	-	-	-	-	537	1,202
Governments deposits	791	992	996	566	509	610
Other (net)	1,546	1,691	1,859	2,369	2,707	2,758

Source: Central Bank of Kuwait, Quarterly Statistical Bulletin, 1989.

Since the end of 1984 the Central Bank has audited the loan portfolios of the commercial banks and, based upon its analysis of the volume of non-performing loans, has determined the level of loan loss provisions, declared profits and dividends. After a long delay, the Central Bank in 1986 implemented a scheme to help banks reschedule bad debts by guaranteeing promissory notes issued by delinquent debtors, and taking a very active role in the auditing process of each bank. The result has been that the commercial banks are effectively government controlled with respect to their domestic lending activities.

Another aspect of the Central Bank's increasing monetary control was its introduction in April 1984 of a two tier exchange rate. This was imposed after an abnormal surge in demand for dollars at the end of March, which was far in excess of commercial demand. After the new rate, which was set by supply and demand, was in place, the Central Bank withdrew its standard currency swap arrangements

for all but commercial deals, and effectively closed down the free foreign exchange market in June. By August the excess demand for dollars had subsided as local banks offered better rates on KD deposits, and the two rates have not diverged since that time. However, the dual system still exists, and different rates will be applied again in case of unusual capital outflow. Since 1984 the central Bank has used its facility for offering currency swaps as an informal control mechanism.

A third area in which the Central Bank has flexed its muscles has been the informal financial sector. Regulations preventing money changers from accepting deposits and making loans have been in place since March 1984, although one of the largest money-changers, Jawad and Haider Abulhassan, chose to ignore the new rules and had to be rescued by the Central Bank early in 1985. The activities of this long-established firm were subsequently wound down but only after a bitter court battle with foreign creditors.

There have been other casualties: the three big investment companies - Kuwait Investment Company (KIC), Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC) - suffered a veritable haemorrhage of losses after the stock market collapse of 1982. The two state-controlled companies recorded huge losses. KFTCIC lost a total of \$580 mn in 1984-87, while KIC lost \$190 mn in 1984-85. By 1988 there were indications of a shaky recovery at KFTCIC which has been recapitalised and restructured, although KIC and KIIC lost money again after modest recoveries in 1987.

The Stock Market:-

The financial sector lost its glamour after the events of 1982, when a classic speculative bubble burst on the thriving unofficial stock market, the Suq al-Manakh. This market had developed after 1977 as Kuwaiti investors looked for new Gulf investment opportunities as restrictions on new company formation

in Kuwait developed. Its collapse left a trail of entangled debt totalling KD 27 bn created from 29,000 post-dated cheques, which took two and a half years and the creation of two specialized government institutions to work out. It involved the expenditure of KD 756 mn of the General Reserves on a futile attempt to maintain high share prices on the official stock exchange between August 1982 and April 1984, as well as a further KD 500 mn to reimburse "small" investors who had had their fingers burnt. In the end, only 88 debtors were officially declared bankrupt. A further rescue was mounted in 1986 when the government bought up 33 "closed" companies in the manufacturing sector. This resulted in a modest revival of prices on the stock market, which has been adequately equipped with regulations to prevent any further speculative outbursts. In the first half of 1989 a series of reforms was introduced further to stimulate the market. Floor and ceiling rules were abolished, transactions were allowed off the stock exchange floor, unit trusts were legalised and a parallel listing reopened.

5.3.7 Electricity and Water:-

The discovery of oil in Kuwait, still the key source of national wealth, ushered in an era of cultural awakening and revival that involved different walks of life: social, educational and economic. Power utility played a vital role in laying down the foundations for this awakening and in satisfying the needs and requirements of such a cultural march. Relevant figures show the extent this utility had developed over the past few years. A big expansion programme is under way in electricity supply and it accounts for some of the largest items of capital expenditure in the state budget. Two current projects are for a thermal station at Al-Zour (South) and a 2,400 mw station at Subuja, with a third station planned for Al-Zour (North). Electricity production in 1988 was 19,598 mw Kwh, having grown by an annual average of 9.4 percent over the five previous years. Of this 85.4 percent was consumed by households and industry, with the balance

consumed by power stations.

For certain, Kuwait was dependent in meeting her fresh water needs on a scant number of wells, in addition to water quantities transported by dhows from Shatt al-Arab in Iraq. The first distillation plant in Shuwaikh was contracted for in 1953, thus it was the outset of distillation plant era. Limited quantities of underground water, however, were discovered in both Al-Rawdatin and Um-Al-Aish fields and the first pumping operation started in 1962. The natural reserves of both fields are estimated at around 40 thousand million gallons. The Ministry has drawn up a Five-Year Plan (1985-90) to promote and develop water facilities with a view to step up production capacity compatible with future needs.

5.4 BAHRAIN

5.4.1 Introduction

Traditionally, the people of Bahrain have earned their livelihood from three main sources - pearl fishing, agriculture and trade. The first two industries provided not only a source of income to the majority of the people, but also a way of life which, due to its system of working, held them in virtual bondage. Trade, whilst it did not employ a great number of people in Bahrain, was nevertheless important as it provided the major source of revenue for the state prior to the discovery of oil.

5.4.2 Educational Services:-

Regular education in Bahrain started in 1919 when the first boy's school was opened in Muharraq town. Nearly ten years later in 1928, the first girl's school was opened.

Education in Bahrain is in three stages: Primary stage (6 years), Intermediate stage (3 years), and Secondary stage (3 years). Higher education is

available for secondary graduates.

Bahrainis are comparatively well educated, with 20 percent having completed secondary or higher level education. In 1986 there were 139 state schools. Educational facilities include the University of Bahrain, which opened in 1978, and the Gulf Technical College, which was set up in 1968 and now has 2,500 students. In May 1986 it was announced that the two institutions would merge to form a new university which would offer a full degree programme, as well as postgraduate courses. The Arab Gulf University at Sakhir, funded by the GCC states and Iraq, opened in April 1987. Today it has an intake of 300 students and a teaching staff of 120. In 1986 there were 1,670 students studying at universities abroad, 36 percent fewer than in 1984.

In addition, many of the large companies in Bahrain such as the Arab Shipbuilding and Repair Yard and Gulf Air are beginning to provide technical training, while the Bahrain Bankers Training Centre, established in 1981 to train and develop local banking skills, is financed by a levy on all licensed banks. The government also encourages private companies to train local workers.

5.4.3 Health and Housing Services:-

The government is offering a free health service for all the population through a number of hospitals and health centres. The government is trying to reach the aim of the World Health Organization "Health for everybody in the year 2000". Four decades of oil production have enabled Bahrain to establish a highly developed system of social services. By the end of 1986 the state's free health services had 8 hospitals and 41 health centres with a total of 1,360 beds and 4,920 staff. Increasing attention is being given to preventive medicine, occupational health and to the treatment of drug abuse.

Table 5.3 :- Government Hospitals and Health Centres (1983-86)

Indicator	1983	1984	1985	1986
Hospital	3	3	3	3
Maternity Hospitals	5	5	5	5
Health Centres	17	17	18	18
Environmental Health Centres	7	7	7	7
Child Welfare Centres	16	16	16	16
Total	48	48	49	49

Source: Annual Statistical Abstract 1987.

Housing Services:-

The state also provides extensive low cost housing for its citizens, especially in Isa Town, which by the end of 1984 had a population of 35,000. A major three year programme, costing \$195 mn, for low and middle income housing is under way with Saudi aid. The first residents of Hamad Town, which is being built as part of this plan, moved into their homes in 1984. Hamad Town now has some 12,000 residential units, as well as about 30 new schools, shopping, leisure and health facilities. Another new town will eventually be built on reclaimed land and this could have a population of 60,000 - 70,000. For the time being, however, housing is scarce and there is a five year waiting list for new homes.

5.4.4 Transport and Communications:-

5.4.4.1 The Causeway:-

Agreement on the construction of a \$600 mn causeway to link Bahrain and Saudi Arabia was reached in principle in November 1976, with Saudi Arabia agreeing to bear the total cost. The causeway, which is 25 km long and includes four major high span bridges, was due to opened officially in November 1986.

Since its opening local Bahraini merchants have suffered as Saudi consumer goods are priced about 20 to 30 percent less than similar items in Bahrain, but the island has also benefited from an influx of Saudi visitors, as well as Western expatriates working in the Kingdom. Tourism in Bahrain benefited greatly in 1987: hotels reported a 40 percent increase in occupancy during the summer. Some 1.4 visitors arrived at the island in the first half of 1987, compared with 260,000 in the whole of 1986. Around 250,000 people currently cross the causeway each way every month.

5.4.4.2 Ports:-

The deep water harbour at Mina Sulman has 14 berths and two container terminals, as well as a roll-on/roll-off berth. A major extension programme was begun in 1983 to increase the number of berths, cranes and storage areas. There has been a considerable increase in the number of containers which use the port and, in 1985, they accounted for 65 percent of total cargo amounting to 2 mn tons. The short and long term future of the port depends heavily on customs duties charged for goods conveyed via the causeway. Unless the causeway can be used for trans-shipment, traffic handled at the port will almost inevitably decrease. By mid-1989 plans had been submitted for the building of a new port, industrial area and free zone to be located either at Hidd or Sitra. The need for a new port has arisen because the inner channel of Mina Sulman cannot be dredged deeper to accommodate the new generation of container vessels and because of the deteriorating state of the port's finger pier.

5.4.4.3 Airports:-

An expansion programme is under way at Bahrain International Airport on Muharraq island to build a new passenger terminal, extend the air cargo facilities and add two more aprons. In 1988 the number of passengers using the airport

increased by 4.9 percent, to 3.88 mn from 3.70 mn passengers in 1987. Revenues rose by 13 percent to BD 11.6 mn. The local airline, Gulf Air, is jointly owned by Bahrain, Qatar, Oman and the U.A.E. and operates regular services throughout the Gulf and internationally. It announced profits for 1989 of \$73 mn, a tenfold increase on 1988, brought about by higher volumes of business and the successful completion of rationalisation programme. In a programme expected to cost 1 bn, the airline plans to double the size of its fleet and to replace all ageing aircraft by 1992. It aims to buy six Boeing 767-300s and twelve Airbus A320s.

5.4.4.4 Telecommunications:-

Bahrain is an important telecommunications centre. In 1981 the government acquired a 60 percent stake in the telecommunications system run by Cable and Wireless and this now operates as Batelco. Bahrain's television service, the first colour station in the Gulf, came into operation in 1973. The opening of the Middle East's first satellite earth station in 1969 underlined a determination to invest heavily to make Bahrain the communications centre of the Middle East.

There are now three earth stations located at Ras Abu Jarjur on Bahrain's south east coast. Two of them link up with Intersat satellites over the Indian Ocean and the Atlantic. In 1985 a third link was established with the Arab Satellite (Arabsat) system initiated by the Arab Satellite Communications Organization. Telecommunication links with the region are maintained through a 1,200 channel submarine cable connecting Bahrain to the UAE and Qatar. There are plans to extend this link to India and Pakistan. The microwave system, is due to be replaced by a fibre optic link under construction along the King Fahd causeway.

At the end of 1987, the Bahrain national telephone network comprised 26 telephone exchanges, 65 percent of which were digital with a total capacity of

97,000 lines and 76,792 connections used at present. The growth of new services especially for the business and banking community has been spectacular. These include 463 leased circuits for database access, facsimile, teleprinter traffic and voice communications by the end of 1987.

5.4.5 Banking and Insurance Services:-

Bahrain has used its geographical position and its communications system to become a financial centre for the Gulf. The banking sector comprises onshore and offshore activity. The Bahrain Monetary Agency (BMA) decided in October 1975 to permit the establishment of Offshore Banking Units (OBUS) and to establish Bahrain as an alternative financial centre to troubled Beirut. The oil boom in the 1970s was the major fillip for Bahrain's aspirations as the major banking centre in the region, but during the recession of the mid-1980s a number of Western OBUs started to close their operations because of sluggish business. In 1988 there were 19 domestic commercial banks, 62 OBUs, 19 investment banks, six money brokers, 18 money changers, one specialist bank for housing and the Bahrain Islamic Bank, 19 insurance companies, and 54 representative offices. The domestic banking sector is dominated by five banks which share 80 percent of local assets. The operations of the domestic sector are controlled by the BMA, which sets minimum reserve requirements, liquidity ratios and limits on loans to directors.

The performance of the commercial banks showed some improvement in recent years. Provisioning against the bad debts of earlier years remained a problem but some progress was achieved and aggregate losses were cut to BD 600,000 in 1988. The National Bank of Bahrain, for example, reported a 58 percent increase in net profits to BD 6.8 mn. Offshore Banking Units operate with minimum restrictions imposed by the BMA. They are, however, unable to compete for local business and must pay a registration fee. In 1977 this was fixed at BD 10,250 but

in 1984 was raised four to tenfold, according to each bank's assets and profits. After nearly ten years of expansion, total assets stopped rising in 1984. However, since mid-1987 assets have increased with the steady economic recovery in the Gulf, the arrival of the Japanese financial institutions, and at that time the prospects of a cease-fire in the Iran-Iraq war. By March 1989 OBU assets totalled \$65.3 bn, compared with \$62.7 bn at end of March 1988. They are now performing more efficiently and looking for business outside Bahrain, although problems with bad loans and the shrinking market have hit the OBUs hard. To offset this trend, they have rationalised their operations and diversified their activities, particularly branching out into investment banking. By mid-1988 around ten OBUs had left Bahrain and many of those remaining ran only representative offices. However, in 1988 the Japanese made their presence felt in the Bahraini banking sector, with nine Japanese securities houses operating in Manama, out of some 24 Japanese financial institutions, mainly representative offices, incorporated in Bahrain. In 1988 also, the BMA extended its weekly offering of the government treasury bills to OBUs and investment banks for the first time. The aim is to develop Bahrain's capital market.

The BMA in 1988 further increased pressure on all Bahraini incorporated banks (local and offshore) to increase their bad debt provisions. But the brunt of the provisioning was taken in 1987. In 1988 the OBUs showed a market recovery, with only two of the locally incorporated OBUs (Arlabank and Al-Bahrain Arab African Bank) failing to report post-provisioning profits. The largest OBU, Arab Banking Corporation, for instance, reported pre-tax net profits of \$142 mn in 1988 - after having allocated all profits to loan loss provisions in 1987. Gulf International Bank, the second largest OBU, announced net profits of \$46 mn for 1988 compared with losses of \$179 mn in 1987. The optimism caused by the Iran-Iraq war cease-fire had not translated into significantly higher business for the OBUs by mid-1989 and the major banks have started diversifying their sources of

income, targeting Europe, the USA and the Far East.

One group of banks which has been making good progress, especially in competitive short term trade finance, is Bahrain's Islamic banks including Bahrain Islamic Bank, Faisal Islamic Bank of Bahrain (FIBB), and Al-Baraka Islamic Investment Bank of Bahrain. FIBB has been setting the pace in *Morabaha* (purchase and sale) syndications, which not only attracted regional Islamic banks but also the Islamic banking of conventional Arab banks and Western banks, such as Grindlays International Bank of Bahrain and Manufacturers Hanover Trust. FIBB has arranged four successive syndications for Pakistani state corporations since November 1987.

Trading commenced on the Bahrain stock exchange in June 1989. 29 Bahraini public companies are listed on the exchange - nine banks, five insurance and 15 general companies - with nominal capital of \$1.6 bn. Plans exist to open the exchange to other Gulf and Arab companies.

**Table 5.4 : Offshore Banking Units, Assets
and Liabilities (\$ mn, end period).**

1981	1983	1985	1987	1988
50,734	62,741	56,805	63,482	68,124

Source: Bahrain Monetary Agency.

Insurance:-

History shows that whenever an enterprising people face a problem they rise to the occasion and find a solution. The formation of the Cooperative Compensation Society in 1954 and the establishment of the Arab Insurance Group in 1980 are two such instances. The Arab Insurance Group (ARIG) came into

operation to meet the demand for large-scale reinsurance business and to supplement the insurance infrastructure in the region. The rising rates of insurance premiums for cargo and hull which caused import bills to rise steeply accelerated the demand for insurance services. Jointly financed by Kuwait, Libya and the UAE, the authorised capital of ARIG is \$ 3,000 million of which 5 percent has been paid. The principal activities of ARIG are to undertake insurance and reinsurance operations throughout the world in all classes of business. It offers a substantial capacity both for treaty and for facultative business. As banking and insurance go hand in hand, the factors which favoured the development of the banking community were equally relevant for ARIG to choose Bahrain as its headquarters.

Further large business opportunities in the reinsurance field prompted the local Gulf companies, including the three Bahraini companies in Bahrain Insurance Company, Al-Ahlia Insurance Company, and Bahrain-Kuwait Insurance Company to form the Arab War Risks Syndicate. The step was calculated to enable the syndicate to make its own estimates of risks and was to apply suitable rates commensurate with the degree of hazards involved. Besides the Vehicle Insurance Fund and ARIG, the insurance sector in Bahrain covers three broad categories. The first category consists of the three Bahraini companies, in addition to the National Insurance Company which was registered in 1982 and the United Insurance Company owned jointly by the other local insurance companies and formed in 1986 to provide international insurance for vehicles using the causeway. The second category comprises 13 foreign insurance companies which have been allowed to establish branches in Bahrain. Finally, there are also 27 exempt companies permitted to conduct insurance business offshore.

Of the five locally established insurance companies in Bahrain, the first to be formed was the Bahrain Insurance Company which was registered in 1969,

Bahraini nationals being the majority shareholders. The company has a paid-up capital of BD 600,000 and undertakes marine, fire, motor general and aviation business. In 1984 the company employed 57 people of whom 32 or 56 percent were Bahraini. In 1976 Al-Ahlia Insurance Company and Bahrain-Kuwait Insurance Company were formed, followed by the National Insurance Company in 1982.

5.4.6 Electricity and Water Services:-

Demand for power is rising by about 4 percent per year and a new power station was completed at Rifaa in 1985. This is capable of generating up to 950 mw, which was equal to the entire output of the four main stations already in existence. Two others at Rifaa have a joint capacity of 650 mw, while the plants at Manama and Sitra have 120 mw capacity each. There are also two small plants, one of 23 mw located at Sitra and another of 40 mw at Muharraq. In 1989 peak demand was around 704 mw. In mid-1989 the Power and Water Affairs Directorate asked for an additional 160 mw of capacity to be built to see the country through the 1990s.

A major programme to build desalination plants was completed in 1985. Whereas in 1984 the desalination plant at Sitra produced an average of 5 mn gallons a day and was thus able to meet less than 10 percent of demand, by the summer of 1985 desalinated water supplies provided 35.6 mn g/d towards peak water demand of 55 mn g/d. By the end of 1986 total capacity rose to 45 mn g/d thanks to the completion of another desalination plant, this time at Al-Dour. However, the possible shelving of some water and electricity expansion was announced by the government in June 1986 in response to the projected downturn in revenues over the 1986-87 two year budget period.

5.5 Oman

5.5.1 Introduction

Perhaps in the rediscovery of the historical richness of Oman's overseas relationships, a pardonable but mistaken over-emphasis has been given to ships, sailors and sea-faring pure and simple. What lay behind the scores of ships and hundreds of seamen which voyaged between the seaports of Oman and the shores of the Indian Ocean and far beyond, were the less superficially romantic mercantile and financial skills. It was these that made it worthwhile importing timber for ship-building, frequently the ships themselves, and ultimately the cargoes of goods for re-export. This last was, and perhaps remains, the key to Oman's trade prosperity, not so much the export of domestic products but - export service.

5.5.2 Education Services:-

The development of formal education in Oman began only in 1979 when His Majesty Qaboos became Sultan. From 1970 to 1975, the priority was for rapid expansion so as to correct the neglect of past years when Oman had only three schools with 909 boys.

The education system is largely run by the state. Following rapid development in the last few years there were 721 schools by 1988/89, with over 298,000 pupils and over 13,000 teachers, of whom over half were Egyptian. The number of Omani teachers is rising, but in 1988/89 still represented only 19 percent of the total. Female education has risen considerably and there are now 264 schools for girls, compared with only 47 in 1974/75, as well as 172 mixed schools. In 1988/89 girls accounted for over 45 percent of the total number of pupils studying at the primary and secondary level. Sultan Qaboos University opened in September 1986 with 520 students entering its one and a half year foundation course. Faculties comprise education, medicine, science, engineering, agriculture and arts.

In addition to these figures on state education, there were 49 private schools in 1988/89, with some 6,800 students, mainly in Muscat. Officials have been calling for the establishment of more private schools.

Training and specialist institutes have been built and there are now over 22,000 adults enrolled in government literacy and adult education centres, and over 1,500 students in vocational training institutes.

5.5.3 Health and Housing Services:-

Oman will continue to improve and expand its health service during the current five-year plan (1985-90). As part of this policy, the Health Ministry is to provide more specialised hospital treatment and in January 1987 opened the 560-bed Royal Hospital at Al-Ghubrah. The hospital will have facilities for open-heart and orthopaedic surgery and treatment of kidney diseases. In addition to general medical wards, the Royal Hospital will have special maternity and childrens' wards. The hospital will also assist in the training of medical students from the Sultan Qaboos University. At present, some of the specialized medical and surgical services provided at hospitals include those of a 128-bed orthopaedic wing and a plastics surgery and burns unit at Khoula Hospital and a cardiology unit at Nahda Hospital, in the capital area.

Substantial progress was made during the 1981-85 period under the second five-year plan. Now, more health centres will be opened in remote areas, primary health services and facilities at existing district hospitals will be improved, and diagnostic and supporting services at secondary and tertiary levels will be upgraded.

By the end of 1988 there were 47 hospitals, 86 health centres and 3 maternity centres. The number of civil government hospital beds rose from just twelve in 1969 to more than 1,784 in 1980 and over 3,450 in 1988. A teaching

hospital is under construction for Sultan Qaboos University, to add to the military hospital and the Royal Hospital, which was opened in 1987.

Housing Services:-

Town planning is a critical factor in a rapidly developing country like Oman. From the outset, great care has therefore been taken to ensure the maintenance of a correct balance between demand, resources and overall national requirements. Oman's carefully formulated town planning and housing policies have resulted in significant comprehensive improvements in living conditions, not only in the capital area but also in regional towns and villages. In addition to being responsible for town planning and housing, the Ministry of Housing looks after land allocation and community development, the latter ensuring that there is an appropriate proportion of residential, commercial and government plots of land to support a balanced community life.

During the second five-year development plan (1981-85) the Ministry's major activities included the planning of the Ruwi business district in the capital area, the siting of Oman's road network within the capital area and outside, finding suitable locations for health and educational facilities such as the Royal Hospital at Al-Khod, and allocating plots for private housing and commercial and industrial properties at Khuwair town, Wadi Kabir, Al-Khod, Al-Jadeed, Maabila South and Atkia/Hajir. The Ministry also launched a programme for developing six new townships in the capital area. These are at Qurum Beach, Khuwair South, Ghubra South, Azaiba, Airport Heights and Madinat Al-Nahda. The first three are in the process of being implemented. In all, the Ministry Town Planning Department was instrumental in preparing some 28,600 new plots for building purposes in the capital area during the 1981-85 period.

In the all provinces, including Nizwa, Sohar and Sur, the Ministry launched

a "quick plan" programme in 1981 to meet demands for land for various uses. Within three years, it provided 34,000 plots. The Ministry is also involved in re-developing old sites in both the capital and rural areas. The aim being to improve buildings without destroying their character.

5.5.4 Transport and Communications:-

5.5.4.1 Roads:-

Since Sultan Qaboos's accession, a major development effort has been concentrated on much needed roads. Only 10 km of roads had been paved by 1970. The 230 km asphalt road built along the Batinah coast from Muscat to Sohar, and thence to the UAE frontier (whence it connects with the excellent Fujairah-Khor Fokkan-Dibba coastal road and with the transpeninsular Fujairah-Sharjah road to the west coast), was turned into a dual carriageway in 1984. An offshoot linking Liwa (just north of Sohar) with Al-Ain/Buraimi, financed by Abu Dhabi, is complete, as is the road between Buraimi, Ibri and Nizwa. Asphalted roads have also been built between Muscat and Matrah, between the capital area and Nizwa and in the south between Salalah and Raysut, Taqa and Thamarit. A 788 km road connecting north and south Oman was completed in 1982, and a road maintenance and repair programme was implemented. By the end of 1988 Oman had 4,247 km of asphalted and 18,144 km of graded roads. During the 1981-85 plan about OR 218 mn was spent on road construction - 162 percent more than planned. In a country where the population is so widespread and naturally barren and mountainous, with intermittent inhabited/fertile areas, land transport is vital to development. Vehicle registrations have risen dramatically, and vehicles on the road increased from about 14,500 in 1974 to 267,500 in 1986.

5.5.4.2 Ports:-

The country's main port is the deepwater port at Muttrah (Mina Qa-

boos), capable of handling 1.5 mn deadweight tons of cargo annually at ten berths. Together with the new port at Raysut, near Salalah, Oman's modern ports unloaded 1.4 mn tons in 1988. Mina Qaboos's berths 1 and 2 were being converted for container handling in 1989, while a new port is planned for an as yet undecided site.

5.5.4.3 Airport:-

A small airport in the capital area was replaced by the Seeb International Airport in 1972, a major expansion programme was completed in 1985. In 1988 it handled some 1.3 mn passenger arrivals and departures (741,000 in 1983). Nearly 22,000 tons of air freight passed through Seeb in 1986 (17,000 tons in 1983). The Salalah airport, which opened in 1977, handled some 73,000 passengers in 1986. Several new airstrips, primarily for military purposes, have been built, and the air facilities at Masirah Island have been modernised and expanded. Gulf Air (one quarter owned by Oman) is expanding and has plans for partial privatisation. Oman's internal airline, Oman Aviation Services reported profits of OR 2.1 mn in 1986.

5.5.4.4 Telecommunications:-

Telecommunications have been much developed. There is now a radio network, colour TV stations have been opened at Muscat and Solalah, and the internal telephone system, run by the General Telecommunications Organisation, has been developed rapidly. A major telecommunications expansion programme, begun in 1983, now provides digital switching systems in the central area capable of handling 44,000 new lines. By the end of 1988 over 83,000 telephone lines had been installed. A new microwave link has been installed near Nizwa to link it with Salalah and Ibri and the capital. Direct dialling to Salalah began in 1982. A drive is now on to expand and update rural telephone networks. Work has begun on

supplying telephones to the Sharqiyah and upgrading the network on the Batirah. An earth satellite has been built, and Muscat can be dialled from London. More earth satellite stations are planned.

5.5.5 Banking and Insurance:-

Banking in Oman has developed in response to the economy's growing needs, watching the rate of expansion in a restrained and sensible manner. Apart from the Central Bank which replaced the former Currency Board in April 1975 in line with a banking law of 1974, there were 25 banks licensed to operate in Oman at the end of 1987. Of these, 22 are commercial banks, nine of which are of Omani origin. The largest (also overall) is the National Bank of Oman (45 percent Omani owned), followed by the Oman International Bank (OIB - the only 100 percent Omani owned bank), the Oman Arab Bank, the Bank of Oman, Bahrain and Kuwait, and, in order of importance, the Commercial Bank of Oman, Al-Bank Al-Ahli Al-Omani, the Bank of Muscat, the Union Bank of Oman, and the Bank of Oman and the Gulf. At the end of 1988 there were 13 foreign banks licensed to operate in Oman. The largest of these (third in overall ranking) is the British Bank of the Middle East (BBME) - the first to establish itself in Oman, in 1984. The next biggest foreign bank in asset terms, the Bank of Credit and Commerce International (BCCI), ranked fifth overall. Other foreign banks include Grindlays, Standard Chartered, Banque Paribas, Habib Bank, AG Zurich, Bank Melli Iran, Bank of Baroda and Citibank. The banking sector is under great pressure to increase its proportion of Omani staff, from about 50 percent today to 90 percent by 1990. Because of the proliferation of branches (194 in 1985) concentrated in the coastal areas, commercial banks now have to open two branches in the interior for every one opened along the coast.

There are three development banks. The Oman Development Bank was

established by decree in 1976 with OR 10 mn capital, subscribed by the government (53 percent), a number of regional and international institutions (40 percent), and private Omani investors (7 percent). The Oman Development Bank began operations in March 1979. The bank aims to grant medium and long term loans to finance industrial, agricultural, mining and oil projects and will also act to raise loans from the government and from international agencies to finance development, it can borrow up to four times its paid up capital plus reserves. By the end of 1988 it had lent OR 48.7 mn to a total of 253 projects, including construction and chemical industries, local processing, beverages and storage facilities. It has a small scale industries scheme, a vocational entrepreneurs scheme and an Omani craftsmen scheme. An institution called the Oman National Housing Development Association was established in 1974 with the state and the BBME as shareholders, but was replaced by the Oman Housing Bank (OHB-10 percent BBME, 51 percent state, 39 percent Kuwaiti). Omanis aged 21-60 are entitled to buy subsidised homes if they earn less than OR 150 a month. The OHB lends up to 90 percent of the building cost, repayable in 20 years at 3 percent interest; most loans have been granted for projects in and near the capital area. The OHB now has five branches. The Oman Bank of Agriculture and Fisheries was set up in May 1981 to provide loans to small farms and fishing companies.

There are about 20 insurance companies, including three locally owned. Foreign insurance companies since 1987 have to cede 30 percent of the market to these local companies. Money changers have been brought more closely under Central Bank control.

Stock Exchange:-

An Omani stock market was officially established in June 1988, but trading started only in May 1989. The exchange's management is controlled by a board headed by the minister of commerce and industry. As of July 1989, there

Table 5.5 :- Money Supply (OR mn, end period).

Sources	1983	1984	1985	1986	1987	1988
Currency outside banks	140.4	150.0	178.5	168.8	180.3	176.3
Demand deposits	128.4	141.4	148.7	141.5	154.1	135.8
M1	268.8	291.4	327.2	310.3	334.4	312.1
Quasi-monetary deposits	406.5	517.8	597.6	555.5	578.3	655.3
M2	675.3	809.2	924.8	865.8	912.7	967.4

Source: Central Bank of Oman.

were 48 listed companies, in addition to over the counter trading of 23 companies not listed on the exchange. All banks and licensed brokerage firms must be members, and for the time being only Omani companies are accepted. Since a June 1989 decision, GCC nationals may trade in shares of Omani joint stock companies that are already owned by persons from more than one GCC country. There are reported to be some 18,000 shareholders in the Sultanate.

5.5.6 Electricity and Water:-

The growth of electricity production has been rapid over the last decade. In 1970, 8 m KWh were produced, while by 1987 output had reached 1,913 m KWh. By 1990, consumption is expected to reach 1,000 MW and plans have already been drawn up for more power station to cope with rising demand.

Rural areas have seen the Sultanate's biggest load-growth over the past five years, with demand sometimes increasing by as much as 70 percent. To organize efficient load-shedding, the Ministry of Electricity and Water is reinforcing the generation system in remote areas by relocating existing diesel generating sets to where demand is greatest. Existing high-voltage networks in the north, at Wadi Jizzi, and the capital area are to be extended to surrounding townships to release

small diesel generating sets for supplying power to the remote regions.

By 1985, a total of 33.9 MW of new generating capacity was installed in the Interior and on the coast. Oman's main sources of power at present are a 294 MW gas-fired complex at Ghubrah, a 250 MW gas turbine station at Rusail, a 26.5 MW plant at Wadi Jizzi near Sohar, and a 41.9 MW plant at Raysut, near Salalah, in the south. The plant at Rusail will shortly be extended by the installation of three generators, which will double its present capacity to 500 MW. MEW also has plans to build two large power plants at Barkah, on the Batinah coast, and Manah, near Nizwa. Barkah is to have a three-phased development, ultimately bringing its total installed capacity to over 600 MW with an associated desalination capacity of 36 million gallons of water per day.

MEW is now reviewing detailed design bids for the first phase of the gas-fired Barkah station. Initially the station will have an installed capacity of 160 MW with an associated 12 million gallons per day desalination plant. Detailed designs for the 100 MW gas-fired station at Manah began in 1987. Manah will serve as the central power station for the interior. Power generation for the Southern Region also comes under MEW. The biggest power station in the south is Raysut. There are served other smaller plants which together with the Raysut station, have a generating capacity of under 100 MW. MEW is looking into the possibility of bringing a gas pipeline extension to Salalah, from Petroleum Development Oman's gas fields in the south, within the next five years. If this goes ahead, there will be a potential of up to 150 MW of power generating capacity to be centralised of Salalah.

Since the early 1970s Oman has been attempting to estimate its water reserves and its hydrologic cycle. Since 1979 this work was coordinated under the Public Authority for Water Resources (PAWR), which monitored aflaj and wells, as well as drilling in order to improve its knowledge of hydrology and of

groundwater reserves. PDO, within its concession area, also has a good picture of groundwater reserves, quality and flow.

The capital was originally supplied from local wells and by pipeline from pumping stations in the Seeb fan. This was supplemented from the thermal power desalination plant opened at Ghubrah, a unit which now produces 12 mn g. Two units which came on stream in 1986 doubled water output. Wadi Adai now also provides about 2 mn g/d to the capital, and plans to build a large dam at Wadi Dayqah are still being considered. Total water production in 1988 had risen to 10,530 mn gallons - a slower rise than in previous years. Most of this was produced by desalination.

Many *aflaj*, the traditional source of water for the interior of northern Oman, are under repair. An increasing awareness of the need to conserve water led in 1986 to a rationalisation of responsibilities, with the Minister of the Environment and Water Resources becoming deputy chairman (under the Sultan) of the new Council of the Environment and Water Resources (CEWR). In March 1989 a reconstituted PAWR, autonomous and only responsible to the Council of Ministers, took over the responsibilities of the Directorate-General of Water Resources and the Council for the Conservation of the Environment and Water Resources. The latter was renamed the Council for the Conservation of the Environment and Prevention of Pollution, while the Ministry of EWR has become the Ministry of the Environment. However, consumption of water is still rising at a dangerous rate, reaching 7,866.8 mn gallons in 1988, although demand in 1987 and 1988 grew less fast than in previous years. Fortunately, the Wadi al-Khoudh retention dam proved a success during the rainstorms of 1987. The dam should now make it possible to retain an annual average of 5.5 mn m³ of water long enough for it to seep into the underground water system. Part of the 1986-90 development plan was the construction of OR 20.3 mn worth of recharge dams, irrigation repairs worth OR 5 mn, small flood control dams costing OR 7 mn, and new drilling.

5.6 SAUDI ARABIA

5.6.1 Introduction

The Saudi economy was originally based on subsistence agriculture, the livestock of the nomadic tribes and funds brought in by the annual pilgrimage to Makkah and Madinah. The discovery of oil irrevocably changed this situation, as oil revenue became the chief source of government finance and foreign exchange, and oil production the dominant component of GDP.

5.6.2 Education Services:-

The education sector has made substantial progress due to the high priority accorded to it by the government. The Kingdom has spent massively on education since the early 1970s. At the end of 1987 there were 6,790 boys schools of all grades in the government sector, comprising 4,668 primary, 1,548 intermediate and 574 secondary. There were also 84 male teacher training institutions and 443 adult education schools. The state institutions housed a total 1,171,671 students and 75,066 teachers. In 1987 there were 933,230 girl students in the 4,744 schools under the General Presidency of Girls Education. There were an estimated 78 institutions of higher education in Saudi Arabia at the end of 1987, with a total of 114,516 students.

5.6.3 Health and Housing Services :-

In keeping with its policy of providing medical services to all citizens, the government has been constantly undertaking projects for the expansion and development of medical and health facilities. The Ministry of Health is estimated

to be responsible for about 60 percent of all health care facilities, and by the end of 1987 operated 157 hospitals and 1,438 health care centres, employing a medical staff of 50,105. In all, the kingdom has more than 210 hospitals with about 35,000 beds.

Table 5.6 : Health Facilities and Medical Staff in the Kingdom.

Facilities	1985	1986	1987
Hospitals	105	141	157
Beds	20796	23862	25902
Primary Health Care Centres	1306	1431	1438
Medical Staff	40050	46400	50105
Physicians	9257	10359	11326
Nursing Staff	20707	24528	25986
Pharmacists and Technicians	10086	11513	12793

Source: Saudi Arabian Monetary Agency - 1988

Housing Services:-

The housing and urban development sector witnessed considerable expansion over the preceding years due to the active role played by the Real Estate Development Fund (REDF), the Ministry of Public Works and Housing and the Ministry of Municipal and Rural Affairs, to develop this sector. REDF has been granting long and medium terms loans, to citizens to construct owner-occupied houses and investment-oriented housing projects. The Ministry of Public Works and Housing implemented a number of housing projects in various parts of the Kingdom. The Ministry of Municipal and Rural Affairs carried out a number of public utility projects. Subsequently, adequate housing units have been made available and house rents have declined to normal levels. This was coupled with

a great progress in urban development involving proper services in public utilities such as water, electricity, sewage and drainage systems, networks of high quality asphalted roads, flyovers and underpasses to facilitate traffic movement, parks, efficient sanitation services and street lighting.

Madinah general housing project, involving construction of 2,084 villas at a total cost of RIS 1,526 million, is nearing completion. About 97 percent of the work on the project was completed by the end of 1988. Work is also underway on al-Ahsa general housing project, of which 91 percent has been completed. The project comprises 400 villas with a total cost of RIS 285 million. Makkah general housing project, comprising 2,592 villas at a cost totalling RIS 1,842 million, is still in progress. About 66 percent of the work on this project has been completed. In the meantime, 47 percent of the work on al-Qatif general housing project, involving construction of 600 villas has been completed. The cost of the project is expected to amount to RIS 425 million.

In 1987/88, REDF extended loans to the tune of RIS 3,972 million, to finance construction of 14,268 housing units, of which RIS 3,797 million (95.6 percent) were long term loans for the construction of 13,978 owner-occupied houses (98 percent), and RIS 175 million (4.4 percent) were medium term loans to finance construction of 290 investment-oriented housing units (2 percent).

The Ministry of Public Works and Housing completed 64.4 percent of the first stage of the housing survey conducted in the major cities of the Kingdom, namely, Riyadh, Jiddah, Makkah, Madinah, Abha, Damman, Dhahran and al-Khubar. On completion of this stage, the Ministry would proceed with the second stage to cover all populated areas of the Kingdom uncovered under the first stage. The information to be compiled and classified from the survey would be of a great help in analysing the housing situation in the Kingdom and in formulating policies

for future housing programmes.

5.6.4 Transport and Communications:-

5.6.4.1 Roads:-

The road building programme has been given priority in development planning. At the end of the second five year plan (1980-1985) the road system consisted of 11,394 Km of main roads, 10,053 km of secondary roads, and 23,180 km of rural roads. By the end of 1987 these figures had risen to 33,576 km for main and secondary roads and 59,226 Km for rural roads. Major arteries include the transpeninsula highway connecting Jeddah, Makkah and Madinah in the west with Riyadh and the Gulf oil fields in the Eastern Province, and the tapline road from Dammam to the Jordanian border. The Red Sea road is being extended south to the Yemen border, via Taif, Abha and Jizan, and expressways are being built between all major urban centres. During the fourth plan it is intended to build 277 Km of new main roads, 2,470 Km of secondary roads and 32,800 Km of agricultural roads. A causeway between Saudi Arabia and Bahrain was completed in 1985 and opened to regular traffic in November 1986.

5.6.4.2 Railway:-

The Kingdom's railway network was built in 1977 to serve the people , consists of a 262 km single track line between Dammam and Riyadh, and its branches. The system is owned and operated by the Saudi Government Railroad Organization, and is undergoing extensive modernisation.

5.6.4.3 Ports:-

Saudi Arabia port network has expanded substantially over the last few years. The Kingdom now has five major ports - Yanbu, Jeddah, Dammam, Jubail and Jizan - two industrial ports, at Jubail and Yanbu, and 14 minor ports. In 1976 the Saudi Ports Authority (SPA) was established to operate the main ports and to ease the congestion that was then plaguing them. In 1980 the five main ports and two newly expanded ones, Qadima and Ras al-Ghair, possessed between them a total of 130 berths with a total annual capacity of 14.2 mn dwt. During the third plan (1985-1990), Qadima and Ras al-Ghair were transferred to the authority of SPA, which aims to provide a 25 percent reserve capacity in the Saudi ports system to minimise the risk of renewed congestion. In 1987/88 the seven major Saudi ports handled 21.5 mn tons of imports and 46.7 mn tons of exports other than oil. There is a Saudi National Shipping Company, and in 1987 there were 203 commercial vessels flying the Saudi flag.

5.6.4.4 Airports:-

The three international airports are Jeddah, Dhahran and Riyadh. The main domestic airports are at these locations and at Medinah, Abha, Jizan, Taif, Tabuk and Qasim, and there are an additional eleven minor airports, giving a total of 23 airports. In 1981 the new Jeddah international airport was opened, and in 1983 there followed the new airport at Riyadh. The national carrier, Saudia, was one of the most rapidly expanding airlines in the world between 1975 and 1980, when the volume of passengers carried increased by 46 percent annually to reach 8 mn passengers. Saudia carried 10.3 mn passengers in 1987, down from 10.8 mn and 11.4 mn in 1985 and 1984 respectively. Over two thirds of passengers are carried on domestic flights.

5.6.4.5 Communications

The telephone and telegraphic network is being expanded rapidly. By the end of the second five year plan the number of telephones has risen to 452,000. Two earth stations, at Taif and Riyadh, are used for international communications, and a further eleven mobile earth stations throughout the Kingdom provide long distance service within Saudi Arabia pending completion of the microwave system. The total number of operating telecommunication lines at the end of 1988 was 1,099,154 including 12,871 mobile telephones, and 13,767 telex lines.

5.6.5 Banking and Insurance:-

The riyal was linked to the SDR on March 15, 1975. The riyal is freely convertible and there are no restrictions on the operation of bank accounts by residents or non-residents in any currency or on any remittances of currency or bullion into or out of the Kingdom. There has been a sharp increase in money supply since 1971 reflecting government policy to try to translate higher oil revenues into economic development. Money supply exploded from SR 7,020 mn at the end of 1973 to almost SR 103 bn by the end of 1981 and by the end of 1988 had risen to SR 190.13 bn.

There were twelve commercial banks in Saudi Arabia, with a total of 929 permanent branches, at the end of 1988. Two are wholly domestic banks, the National Commercial Bank and the Rujad Bank, which between them account for two thirds to three quarters of the balance sheet total. The others in recent years have conformed to decrees requiring majority Saudi participation and are rapidly extending their nationwide operations. Greater limitation is being imposed on the involvement of money changing establishments with banking services, and one of the kingdom's largest financial establishments, Al-Rajhi Company for Currency

Exchange and Commerce, was in 1988 restructured as an approved banking institution along Islamic lines. The banking sector's previous high profitability has been hit since 1984 by the need to make substantial provisions against problem loans in the public contracting sector, but there were signs of improved earnings again in 1988.

**Table 5.7 : Consolidated Commercial Bank Portfolios
(mid-year). (SR mn)**

Sources	1984	1985	1986	1987	1988 [ⓐ]
Cash in hand and					
deposits with Sama	9,465	11,834	11,755	13,918	10,689
Foreign assets	68,158	72,093	75,680	86,672	114,741
Private sector					
Loans and investment	58,691	59,439	58,781	59,264	70,523
Total deposits	109,796	113,628	112,834	121,927	142,473

ⓐ. End year, and including balance sheet of Al-Rajhi Banking Investment Corporation.

Source: Saudi Arabian Monetary Agency.

Subsidised long term credit to approved sectoral activities is also provided through five large specialized credit institutions which are capitalized from government revenue. The Saudi Agricultural Bank and the Saudi Industrial Development Fund have become major tools in influencing private sector investment response to match national development policies in their respective fields. The Public Investment Fund provides loan finance for major industrial projects in the public sector, while the Real Estate Fund guides concessionary loans to approved

private housing construction. The Saudi Credit Bank is accessible to low income Saudi nationals for cheap general loan finance. There is also a Credit Fund for national contractors. At the end of 1988 assets of the specialised credit institutions on a consolidated basis totalled SR 157.1 bn, of which loans constituted SR 127.0 bn. The Real Estate Development Bank accounted for 54.5 percent of these loans outstanding, the Public Investment Fund for 32.8 percent and the Saudi Agricultural Bank for 9.0 percent.

Insurance Services:-

The Government aims at providing adequate conditions for the labour force through the social insurance system. The number of public corporations covered by the social insurance system (pension branch) stood at 1,348 at the end of 1988, while the number of private firms totalled 11,808 during the same period. The number of workers benefiting from the social insurance system (pension branch) reached 3,943,234 at the end of 1988, of which 384,247 workers were in public employment and 3,558,987 workers were in the private sector.

The total number of workers subscribing to occupational risk insurance stood at the end of 1988 at 3,149,572. Compensations paid by GOSI to beneficiaries, Saudis and non-Saudis, of both pension and occupational risk branches during 1987/88 stood at RIS 453.4 million

5.6.6 Electricity and Water:-

All electricity produced in Saudi Arabia is thermal. Installed capacity was 15,200 mw in mid-1988. In the past electricity was provided by small urban utility companies, as many as 100 of which operated small isolated grids of differing

frequencies and voltages. Over the three development plan periods, Saudi Arabia has succeeded in standardising frequency and service voltages, in consolidating the numerous small companies into regional groups, and in introducing electricity into rural areas in a significant way. A portion of the kingdom's electricity is now supplied by the 30 desalination plants operated by the Saline Water Conversion Corporation. There are now four Saudi Consolidated Electricity Companies, the Eastern, Central, Southern and Western, while the government owned General Electricity Corporation has responsibility for implementing the rural electrification programmes. In 1986/87 43,906 gwh of electricity was generated by the major companies of the kingdom, of which 24.6 percent was consumed by industry.

5.7 U.A.E.

5.7.1 Introduction

Prior to the late 1940s the vast majority of the population of the Trucial States lived at a subsistence level, virtually indistinguishable from that which they had reached centuries before. During the nineteenth and early twentieth centuries, pearling was vitally important to the economies of the Trucial States and before oil made the difference between a meagre subsistence level of living and a lifestyle with a few luxury items for some. Only the inhabitants of those states directly bordering the Gulf were allowed to indulge in pearling, with this stipulation enforced by the British maritime peace effort. Since the government began to subsidise in 1981 and 1982, there has been growing concern that on spending on health and education is pushed higher than necessary because it caters for dependents of expatriates.

5.7.2 Education Services:-

The U.A.E. is engaged in expanding education, which is seen as a unifying force for the future of the federation. The centrepiece of the UAE educational system is the Emirates University in Al-Ain, which graduated its first students at the start of the 1980s. It is due to be expanded on a 20 Km² site to accommodate as many as 16,000 students by the year 2000. Initial construction work is expected to entail an outlay of Dh 3-5 bn. When the new university is built the existing campus will become a technical college. There are also plans to set up a military academy in Al-Ain. More tertiary education is now being provided by polytechnics, four of which, two for either sex, were set up in Abu Dhabi in 1988.

There are some 760 schools in the emirates, both private and government, catering for some 320,000 pupils. In 1988 230,000 of these were in government schools. The government has been trying to discourage expatriates from entering state schools where classes are often too large. Most teachers are expatriate.

5.7.3 Health and Housing Services:-

In the UAE as a whole the ratio of hospital beds to population is coming close to the governments target of 1:200. By the end of 1986 there were over 40 public hospitals, with a total of 3,9000 beds. The biggest are the Mafraq general hospital in Abu Dhabi, the Tawam, which normally admits only nationals, and the Al-Jimi in Al-Ain, as well as three large hospitals in Dubai - the New Dubai, the Zabeel East and the Rashid Centre Hospital. The Ministry of Health has built a general hospital in Sharjah, with construction completed in 1987, but payment disputes delayed its opening, until 1990. Ras al-Khaimah and Fujairah also have general hospitals. Ajman's plans for a hospital have been shelved for the time being. Abu Dhabi and Dubai are now turning their attention to primary health

care, with each due to open a series of ten health centres. Cuts in government finance for health have also led to a growing number of small private hospitals, the largest being the Al-Zahra in Sharjah, with a hundred beds.

5.7.4 Information and Tourism:-

The most outspoken publications in the UAE emanate from Sharjah. A journal called *Al-Azmena at Arabia* was closed down for its persistence in this respect but the Sharjah daily, *al-Khalj*, maintains the tradition to a certain degree. The two main English language newspapers produced in Dubai were started by brothers from the well known Galadari merchant family. Dubai's Arabic Language daily, *Al-Bayan*, started after its English Language counterpart in 1979.

Television was inaugurated in Abu Dhabi in 1969 and in 1974 in Dubai and today there are some 200,000 television sets (mostly colour) in domestic use throughout the U.A.E. During 1985 Dubai became the first Middle East state to launch its own teletext service.

Tourism:-

Tourism is a relatively new phenomenon for the UAE but one that is being taken seriously by the emirates of Dubai and Abu Dhabi as a means of putting to profitable use facilities that were built in the boom years of the 1970s but have since been underused. Nowadays there are attempts to attract Westerners (who might otherwise head for East Africa or the Caribbean) to sample the UAE as an offbeat resort for a winter holiday or as a stopover on a long haul flight to the Far East. Some 20,000 Western tourists were received in the UAE for the 1989/90 winter season. A major new hotel is planned for Abu-Dhabi's is Corniche

and both Hilton and Meridien chains are considering new hotels in Dubai where existing luxury hotels are full during the winter. Hotel revenue in the UAE in 1988 totalled Dh 903 mn, compared with Dh 809 mn in 1987.

5.7.5 Transport and Communication Services:-

5.7.5.1 Ports :-

Roads, ports, airports and aviation have been developed by individual emirates. Most emirates have established their own ports. The biggest is Port Rashid in Dubai. Opened in 1979, this is one of the largest artificial deep-water harbours in the Middle East. It handled nearly 4 mn tons in 1987, most of which was containerised. Dubai's gigantic dry dock did well out of the "tanker war" but claims to have lost more than it gained in the general discouragement of traffic by the Iran-Iraq war. Dubai's other main port is Jebel Ali, which concentrates on industrial and bulk cargoes for the Jebel Ali industrial zone.

Port Zayid, in Abu Dhabi, opened in 1972, but was hampered during the 1970s by the absence of a container terminal, which encouraged consignees to ship through Dubai. In 1981, however, the terminal finally opened and the port handled more than 3.6 mn tons of cargo during the year. The port went into decline with the cuts in oilfield exploration, but a campaign for new business was launched in 1987, and the port has recently attracted Norasia shipping, a West German shipping line specializing in container traffic and forestry products.

Sharjah, like Dubai, has two ports. Port Khalid, inside the Gulf, serves Sharjah city. It opened in 1976 but has suffered through the misfortunes of three of its major customers (Medtainer, Seatrain and Hellenic lines). Khor Fakkan,

on Sharjah's east coast, opened in 1978, permitting container traffic to reach destinations in the Gulf without passing through the Strait of Hormuz. This attraction failed to win many customers in the early years, although more interest was shown during the Iran-Iraq war, especially after the escalation of hostilities in the Gulf waterway in mid-1984. Only 20 Km away from Khor Fakkan on the east coast is the larger port of Fujairah, opened in 1983. This serves Fujairah's own aggregate and cement industries, besides having the advantage of its location outside the Gulf.

Table 5.8.: Tonnage Landed in Dubai (tons).

Sources	1984	1986	1988
Port Rahsid	2,706,365	2,886,127	3,909,379
Jebel Ali	1,773,938	1,394,043	1,072,151
Hamriya	227,486	387,720	428,151
Creek	36,414	27,992	28,790
Airport	68,070	70,156	86,805
Total inc.oil terminals	7,037,898	7,286,448	7,459,493

Source: Dubai External Trade Statistics.

Fujairah it has specialised in handling the Australian live meat trade. Ras Al-Khaimah's Port Saqr mainly handles the emirates' exports of aggregate and cement. Umm al-Qaiwain's Shaikh Ahmed bin Rashid port acquired a free trade zone in 1987 which has since attracted several garment factories.

5.7.5.2 Airports:-

Five of the seven emirates have an international airport and a sixth is

under construction at Al-Ain in Abu Dhabi. The New Abu Dhabi International Airport (Nadia) was opened at the beginning of 1982, the old airport having reached the limits of expansion in the mid-1970s. Nadia had an initial annual capacity of 3 mn passengers, doubling to 6 mn by 1990, though only 2 mn used it in 1987. An aircraft maintenance centre opened there in 1987, 40 percent of which is owned by Gulf Air, the rest by the Abu Dhabi government.

Many of Dubai's passengers were carried by Emirates Airline, which began flying in 1986 and in 1987 opened a daily daytime service to London. In 1989 it began flying to Kuwait, Jeddah in Saudi Arabia and Iran (Bandar Abbas). The emirate has put considerable effort into developing its sea-air freight traffic and is planning a \$70 mn sea-air cargo terminal to increase handling capacity from 112,000 t/y to 250,000 t/y. Sharjah airport, only a short drive away from Dubai, has the capacity to handle 2 mn passengers a year. In the first half of 1988 some 593,000 passengers used it, an 87 percent increase over the same period of 1987, many of them were Iranians on shopping trips to the UAE. Ras al-Khaimah airport is currently used on a regular basis by only four airlines, although it has capacity for 250,000 passengers a year. Fujairah airport opened in 1987, and Egyptian and Gulf Air now call on a regular basis.

5.7.5.3 Roads:-

Road development throughout the emirates has been extensive. Abu Dhabi City is linked to the mainland by two bridges, and a dual carriageway highway connects it with Al-Ain. A third important road runs west from Mafraq to Tarif and Jebel Dhanna and from there to Qatar, providing a land route all the way from Europe to Ras al-Khaimah.

5.7.5.4 Telecommunications:-

Telecommunications are handled by Etisalat, formerly known as Emirates Telecommunications Corporation. This body was established in 1976 when it was part owned by Cable and Wireless and International Aeradio. By 1980 it was 60 percent government owned, with the remaining 40 percent held by private interests in the UAE who have done extremely well out of their shareholding. By 1988 there were 86 exchanges with a capacity of 228,000 lines and more than 188,000 subscribers. Two mobile telephone exchanges were functioning with more than 4,000 subscribers. Telex lines had increased to 7,000 and the number of telefax machines in the country had reached 205. GCC member states agreed to standardise telecommunications charges in 1985. Coaxial cables were inaugurated in 1987 between Fujairah and the Indian subcontinent.

5.7.6 Insurance and Banking Services:-

The oil boom in the UAE in the mid-1970s brought with it a proliferation of banking establishments. The emirates had 20 commercial banks in 1973, 46 in 1975, 53 in 1976 and 55 by April 1977, making the country one of the most over-banked in the world.

The Central Bank issued an annual report in which it listed operating banks in 1980. These numbered 49, with a total of 347 branches. Of these 28 were fully licensed foreign banks (with two more approved but not operating) and the remaining 21 were locally incorporated. The foreign banks had by far the most branches, however, with 222 as compared with the locally incorporated banks' 125. There were also 17 local banks, whose main line of business is trade financing. A system of restricted license banks (RLBs) was instituted in March 1976 in what some observers saw as a form of competition with offshore banking

units in Bahrain. Twelve RLBs had been licensed by the end of 1977 but the number was down to three by the end of 1986.

In Abu Dhabi both local and foreign banks have been coming up against the Islamic prohibition of the payment of interest in their efforts to collect their debts; there is reckoned to be over Dh 8 bn owing to banks in the UAE. The mixture of foreign, albeit Muslim, judges in the country's legal system makes it difficult to establish a decision on this, despite the crisis of confidence which would grow among the foreign banks were the payment of interest, particularly compound interest, to be forbidden. There was still no real solution by 1988 with the result that foreign banks are much more cautious about their loans. On the whole, 1988 was a good year for UAE banks with most of them showing a modest recovery in profitability. Total assets/liabilities grew by 10.4 percent between December 1987 and December 1988, most of the increase being due to expansion in foreign assets and liabilities. Operating costs were down and most banks were able to report reduced provision for bad debts which ate into their profits so drastically in the mid-1980s.

In 1985 the Emirates Bankers' Association replaced the UAE Bankers' Association set up several years previously by foreign banks. Member banks of the new association must be at least 80 percent locally owned, but foreign banks may become associate members without voting powers. Only a UAE national may represent foreign banks at meetings of the association - not always an easy requirement to fulfil. In July 1988 the association protested successfully against Central Bank efforts to impose a license fee on foreign banks. The government is meanwhile considering ways of encouraging nationals to invest their money locally. The setting up of a stock exchange has been discussed regularly but awaits enforcement of the federal companies law promulgated in 1984. In the meantime, dirham certificates of deposit have begun attracting local investors.

Table 5.9 : Money Supply, End Period (Dh mn).

Sources	1984	1986	1988	1989@
Currency outside banks	2,929	3,246	3,600	3,460
Demand deposits	5,963	5,956	7,154	6,982
Money (M1)	8,892	9,201	10,753	10,442

(@) End July 1989

Source: EIU, Country Profile 1989-1990

5.7.7 Electricity and Water Services:-

The availability of gas in the UAE has become a major factor governing the conversion and expansion of power generating capacity. Installed capacity of the UAE's main power stations now totals about 3,850 mw. Most of this is in Abu Dhabi with nearly 1,650 mw, and the rest is in the domain of the federal Ministry of Power, which owns power stations in Ajman, Umm al-Qaiwain and Ras al-Khaimah. All power stations are gas fired. Peak demand in the UAE as a whole is expected to rise from 2,650 mw in 1986 to 6,900 mw by 2000, by which time installed generating capacity should total 8,040 mw. Dubai increased its installed capacity with the commissioning of the new 227 mw and 24 mn gld Jebel Ali Jet E power and destination plant (long delayed by problems with the South Korean contractors). In the meantime Dubai announced plans for its next power and desalination complex, to be built at al-Mamzar. This is designed to produce 400 mw of electricity and 56 mn g/d of water and should begin production in 1992.

Electricity is heavily subsidised. The production cost in Abu Dhabi is

estimated at 28 fils per Kwh, of which the customer pays 7 fils. Water is virtually free in Abu Dhabi, Dubai's water consumers receive their water at a 37 percent discount. There have been discussions at GCC level to unify such subsidies, without much progress so far.

5.8 Cooperation in Services Sector

5.8.1 Finance

At a 26 January 1987 meeting in Abu Dhabi, the governors of the GCC central banks agreed in principle to a common framework for their currencies. Though the specifics of the proposed unified currency structure have not yet been determined, a number of technical meetings were scheduled in the hope that a final proposal will be presented for consideration first to the Ministers of Finance and then to the Supreme Council.

The proposed system will have to harmonize the GCC currencies, which at present are based on the U.S. dollar, on a basket of currencies in which the U.S. dollar is most prevalent, or on the International Monetary Fund's SDRs. Because the dollar has been particularly volatile in the 1980s and because four of the six GCC states have currencies tied to the SDR, it is possible that the final determination for the unified currency and exchange rate will be based on the SDR. But because of the currency structures of Kuwait and Saudi Arabia, which support the basket approach, the prospect of negotiating an international basket formula may also be necessary before a unified currency is adopted.

The long-term effects of the decision on GCC financial integration are self-evident; in the short term, however, the unification will serve to reduce spec-

ulation on GCC currencies and facilitate the ongoing promotion of trade and capital movement in the GCC arena. It is unreasonable, however, to expect the swift resolution of highly divergent views and systems in the GCC financial systems, particularly in an environment of general economic retraction. As with other areas of economic cooperation, progress in linking currencies is likely to be very deliberate and develop under more stable economic circumstances.

By the time of the eighth meeting of the Supreme Council in December 1987, it was decided that conditions were not yet appropriate for the imposition of a unified currency system. In particular, the uncertainties created by the Iran-Iraq war and the acknowledgment that "there was little to gain politically from turning [the GCC's] back on the dollar" were the source of the decision. The importance of the efforts toward integration of the financial systems, however, were stressed by the GCC leaders in the economic declaration issued after the eighth Supreme Council meeting: "the Supreme Council blessed the efforts toward the adoption of a fixed common index of the GCC currencies as an important step within the framework of coordination of financial and monetary policies and the realization of a Gulf common market."

5.8.2 Transportation

In the areas of land, sea, and air transport, the GCC states have examined a number of ways to link their economic infrastructure more effectively. For obvious reasons, the importance of strengthened transportation ties between the GCC states cannot be overstated in the context of regional economic integration. Measures to promote transportation connections with other regions, such as the member states of the EEC, could also have a significant economic impact. The inclusion of sweeping provisions in the EA relating to transportation come as no surprise.

By the virtue of their location on the Gulf and Arabian Sea and their long history of sea activity, the GCC states have understandably emphasized the standardization of port specifications and procedures. A second and more immediate reason for cooperation in this regard is the Iran-Iraq war, as unified port procedures would be strategically valuable to the GCC states in contingencies involving the interruption of the maritime trade of one or more GCC states. The member states are bound by the EA, in light of these and other factors, to:

1. accord means for passenger and cargo transportation belonging to citizens of the other member states to receive the same treatment they accord to their own citizens.
2. cooperate in the fields of land and sea transportation [by coordinating and establishing] such infrastructure projects as seaports, airports [and] ...roads.
3. coordinate aviation and air transport policies; and
4. allow steamliners, ships and boats and their cargoes, belonging to any member state, freely to use the various port facilities and grant them the same treatment and privileges granted to their own.

The process of standardization and coordination of ports was launched by the first annual meeting of GCC port executives in October 1982 in Riyadh. This and subsequent meetings have been marked by consideration of a memorandum submitted by Oman with a proposal for the GCC to develop and expand Omani strategic port facilities, principally for reasons pertaining to contingencies arising from the Iran-Iraq war, leading to the adoption of a plan that was presented to the GCC foreign ministers on 17 March 1985. The port executives have also called for the adoption of common port standards based on the model of ports in Saudi Arabia.

In May 1983, the GCC ministers of transport and communication approved a proposal to establish an executive committee of civil aviation directors. The committee has since agreed to a new inter-Gulf flight schedule and the unification of airline ticket structures. At its first meeting in July 1983, the executive committee advanced a set of proposals concerning inter-Gulf flights aimed at maximizing efficiency. The matter of common fares was discussed during its next two meetings, in February and September 1984, and on 30 September 1984 the committee formally recommended the unification of the rate structure along with a 40 percent discount to youths between the ages of 12 and 26 years. Apart from these actions, the committee has also explored putative measures to protect GCC-state airlines from foreign competition.

A plan to create a GCC air transport company was considered by a conference held on 11 January 1982, which referred the matter to the Secretariat General for a detailed feasibility study. The ministers of transportation then examined the issue during their meetings of May 1982 and May 1983. By the 30 September 1984 meeting of the committee, the Secretariat General had completed its review and concluded that the proposed company was "non-viable."

At a meeting in Muscat in June 1982, GCC ministers of transport and communication agreed to the preparation of a feasibility study on a common railway system. The proposal was based on the view that the GCC railway network could be linked eventually with lines to Europe and, therefore, could open vast new trade and other commercial potentials to the GCC states. Transport infrastructures in the GCC region proper have also been at the core of efforts to effect greater integration. Specifications for highways and connecting roads were approved by the ministers of transportation in March 1984.

An achievement for the GCC with important implications for inter-GCC

trade and overall economic integration was the conclusion of the transit system agreement on 19-20 June 1982. The agreement, required by Article 5 and of the EA, contains six parts, which regulate composition and nature of shipping containers, wrapping requirements, customs seals, transit manifests, exceptional shipments, and the exchange of signatures between customs officials.

Finally, the Secretariat General is currently engaged in the development of a policy paper with proposals for a GCC transportation policy. Such a document would presumably serve as the centerpiece for evolving GCC cooperation in the transportation sphere.

5.8.3 Electricity and Water

The development of common electricity and water systems with standardized rates throughout the GCC has been the primary objective of the GCC cooperation committee on electricity and water. During their meeting of 30-31 October 1984, the GCC ministers of electricity ordered a study to be completed in 1985 on the potential of a common electricity grid between the GCC states. The ministers announced in April 1985 that the initial feasibility study had been completed and next decided to request regional electricity demand projections over the next 20 years from the Kuwait Institute for Scientific Research. A two-phase plan to link the electricity systems of Bahrain, Kuwait, Qatar, and Saudi Arabia, after which Oman and the UAE would be connected, was approved in principle by the ministers of energy on 24 September 1986. By October, a proposal detailing a reported \$1.7 bn plan had been under serious consideration for final proposal to the Ministerial Council. A meeting in early 1987 to consider the proposal was postponed, but the process of integration of electricity grids has generated considerable support among the various relevant GCC committees.

A parallel effort has led to the standardization of electricity and water rates. At their meeting on 30-31 October 1984, the GCC ministers of electricity approved a plan to adopt a two-tier electricity rate system. The recommendations were adopted by the Ministerial Council on 22 April 1985, and unified GCC electricity and water rates structures were implemented starting 1st October 1985.

In addition, the committee has sought to identify areas of standardization through which electricity and energy resources can be conserved, such as common insulation requirements for buildings and coordination or purchases of electrical equipment. A common policy statement containing regulations governing the protection of water resources was adopted in June 1985.

5.8.4 Communications

Expanding communication links between the GCC member states and standardizing procedures and costs have been the focus of GCC activity in the realm of communications. Some two years before the establishment of the organization, a project to link Bahrain, Qatar, and the UAE to a common marine cable system had been agreed upon. The GCC has sought to capitalize on the existing plans by determining the feasibility of a system including the other three member states. A study along these lines was initiated in October 1982. In the areas of telephone, telegraph, and post, efforts have concentrated on developing a common tariff system. Permanent committees were established in each of these areas pursuant to a meeting of the GCC post and telegraph ministers on 30 May 1983. A study on the introduction of standardized mailing codes throughout the GCC region was requested by the ministers at the same meeting. By 16 September 1984, the idea of unified tariffs had gained momentum in the GCC committee on unified tariffs as well. Representatives on that committee proposed the unification of the telephone rate system based on a 30 percent reduction in intra-GCC

telephone charges in the evenings, Fridays, and public holidays. The plan was assessed by the telecommunication ministers at their meeting in Riyadh on 27 October 1984. All GCC states have also become members of the Gulf Technical Bureau of Communication, which has been annexed to the Secretariat General. The organization serves to coordinate the distribution of airwaves as well as to unify other procedures relating to communications.

5.8.5 Education

Cooperation in education has been frequently cited as a major goal of the Council. However, it is interesting to note that the first meeting ever of the GCC ministers of education was not held until September 1985. One should hasten to add that educational cooperation has taken place under the auspices of the Arab Education Office of the Gulf states, which has been in existence for several years and which also includes Iraq. Indeed, in a recent interview, Bahrain education minister attributed the apparent slow pace of educational cooperation under the GCC to two factors: First, significant educational cooperation existed even before the creation of the GCC; second, GCC policy makers have directed their attention to more immediate issues such as economic and industrial planning and security. In fact, the eighth annual conference of the Gulf Arab states' education ministers (Qatar, March 1985) was concerned with matters relating to education, scientific, and cultural coordination among the Arab states of the Gulf.

In an interview, Bahrain's deputy minister of education, Hamad Al-Sulayti, said that the thrust of educational cooperation is twofold: the Gulf Arab University (Bahrain) and curricular planning. Policy planners in this area are guided by two goals: to avoid duplication of efforts; and to define the common attitudes and culture that would enrich the school curriculum. He identified four immediate needs: studies; surveys; common syllabi; and coordination in the sci-

entific and technical fields. He noted that in 1985 discussions were held on three topics : a master textbook; common textbooks; and a plan for common texts in maths. The main problem facing educational cooperation, according to Al-Sulayti, is the "uneven" level of educational development in different GCC countries." He also stated that agreement had been reached within the GCC on a statement defining the general educational goals for curricula in the Gulf Arab states. The 1983 draft of the highly qualified should be employed in it.epared by the Arab Education Office of the Gulf states. It has become the basis for educational coordination among GCC states.

There is other cooperation in education as follows :-

1. The GCC have agreed to cooperate in curricular development, at least on the general foundations of curricula. Three foundations were delineated: psychological; social; and educational.
2. Gulf cooperation in education is natural because of the common characteristics among the GCC states: common geography, natural resources (oil), religion (Islam), language (Arabic) and culture.
3. Social foundations for educational cooperation include the following:
 - a. The Gulf states are basically Islamic societies which believe in Islam as a religion and a way of life.
 - b. Gulf states are part of the Arab nation.
 - c. Gulf societies are experiencing very rapid change and in spite of their fast development, they still suffer from aspects of underdevelopment: high illiteracy and a shortage of technically trained manpower.

d. The Gulf is a very important region-economically and geographically.

At the conclusion of their meeting (Riyadh, Saudi Arabia, September 10-11, 1985), the GCC ministers of education adopted the following general policies regarding education:

- 1. Teaching is a specialised vocation, and only those who are highly qualified should be employed in it.**
- 2. Illiteracy must be completely eradicated from the G.C.C. states.**
- 3. Higher education at the university level must be Arabised in all of its disciplines and branches.**
- 4. Citizenship, obedience, and the ability to defend one's homeland should also be nurtured through military education in schools.**

The ministers of education also adopted the following resolutions:

- 1. A minimum level of basic education must be provided for all (elementary and middle education).**
- 2. Creativity, independent thinking, and analytical reasoning must be encouraged in schools.**
- 3. Educational curricula and textbooks must be unified throughout the GCC states.**
- 4. Special education must be encouraged. Educational opportunity must also be made available to disabled.**

5. Higher education must respond to society's needs and must train enough future leaders.
6. Scientific research must be employed to solve the society's problems and its capabilities must be utilised without excessive reliance in imported technology.

5.8.6 Information

Information is another area that has been the subject of cooperation arrangements among GCC states. Cooperation has involved news agencies, radio programmes, and even the creation of a regional GCC radio programme, called the "Voice of the Gulf Cooperation Council". This programme, initiated in July 1985, had broadcast from Abu Dhabi for three months and then would rotate among the GCC states at three-month intervals. The "Voice" had heard two hours daily.

In the spring of 1984, the GCC called on member states to assist their national news agencies in obtaining current information. GCC officials stressed the need for objective political analysis of the news and recommended that ARAB-SAT be used to serve Gulf news agencies. At their first meeting (October 1985), the GCC ministers of information discussed a draft agreement on further cooperation. The agreement, which consist of eleven articles, aims at strengthening the cooperation in the field of information, especially as it pertains to radio and television programs and news. The information ministers also discussed three working papers regarding the state of cooperation in information, the nature of joint information action, and the methods to be used to effect more and better cooperation in the field of information.

5.9 Summary

The service sector in the six Gulf states accounts for a sizeable percentage of the region's GDP, averaging close to 46.8 percent in 1988. The largest contribution of service activities to gross domestic product is in Bahrain (62.4 percent) followed by Qatar (52.6 percent) and Saudi Arabia (48.6 percent). The percentage contribution of these sectors to GDP in the other Gulf states ranges between 41 percent and 42 percent. Activities in this sector have been financed mostly by government expenditures from oil revenues (e.g. health, education), with a sizeable portion of domestic requirements being provided for by imports. However, the trend in the coming decade is to encourage greater private sector participation, diversify the kind of service activities generated domestically and reduce the dependency on the outside world for the provision of the services. Promoting the services sector appears to offer a chance to diversify Gulf economic structure, given the difficulties encountered in establishing viable agricultural and industrial activities aside from these related to oil and petrochemical.

The Gulf region is considered more important as a net importer of services than a net supplier. In 1989, a total deficit of \$ 15.8 billion is estimated to have been recorded in the balance of services and transfers for the Gulf states. This deficit has been on a declining trend after reaching a peak of \$ 44 billion in 1981. Exports of services, which include earnings from shipping, aviation, insurance, banking, tourism and other services recorded average rates of growth of 20 percent per annum during the boom period of 1976-1981. This gave way to annual rates of growth of 20 percent during 1982-1985 period, before declining in the subsequent three years. Payments to acquire services from abroad which rose at an annual rate of 35 percent between 1976 and 1981, increased by less than 1 percent during the period of 1982-1986 before declining thereafter.

As we have seen in this chapter, it may well be concluded that services in the G.C.C. countries have developed independently in each country as cooperation and integration amongst the G.C.C. countries in the sector is still limited. This can best be illustrated by a comparative summary of the evolution of financial services in recent years, as competition rather than cooperation has prevailed. The reduction in the pace of regional growth and development has led to an overall slackening of demand for finance. Guarantee business, contract financing and import financing, previously Gulf banks' core business, accounting for more than 70 percent of their loan commitment, have fallen off sharply in 1987. The banking environment in the region has become more testing and competition among banks all chasing fewer first-tier clients is leading to tighter profit margins.

Gulf bankers, preoccupied mainly by asset growth in the 1970s and early 1980s, are now re-evaluating assets, insisting on quality, looking for opportunities abroad and specializing either in traditional trade financing, investment banking, financial services or in portfolio management.

The economic slowdown in the region is bound to create cash flow problems, especially among inefficient companies that have been mismanaged for some time. Many Gulf companies expanded so rapidly in the boom period that they did not have time to build up an organizational structure to keep up with the volume of work at hand.

While the underlying problems are the same, however, the symptoms have, under the influence of local conditions, taken different forms in the various countries of the region. In Saudi Arabia banks concerned with growth and market share competed with each other in boom years to attract more borrowers. Many of these clients are now facing difficulties in making repayments, and the banks have no guarantee that the courts would rule in their favour if borrowers fail to

repay their debt. In the absence of a modern banking law, courts resorting to Islamic Sharia will throw out cases where an element of interest is involved.

In Bahrain the offshore banks have been greatly affected by the overall recession in the Gulf and the shift of the international market away from syndicated lending. Construction bonds and guarantees are drying up as infrastructural projects reach completion and new projects are either delayed, scaled down or shelved for lack of sufficient funds. Consumer demand decelerated as well, and business confidence was been adversely affected by the *AL-Manakh* crisis in Kuwait and the Gulf war. The Iran-Iraq war has removed ample banking opportunities in both these two countries. At the same time official policy and the growing competence of the national banks have combined to exclude the OBU's from much of the available business.

On the liability side, the dependence of the Gulf offshore banks on inter-bank funding makes them vulnerable. International banks are wary of increasing their exposure to a region where the risk is received to be on the rise. The privately owned Arab OBU's have realised that without attaining a large scale of business it would not be possible for them to support too costly an organization out of Bahrain.

The major problem of UAE and Qatar is that they are overbanked. there are 102 banks and 284 branches for 1.3 million people in the UAE. While in Qatar, ten foreign banks and five local banks are chasing a small amount of business. The downturn in the local and regional economies has left its impact on banks operating in the two countries. Three banks in the UAE have run into difficulties in the last 18 months (1987), and liquidity problems surfaced, as well in Qatar.

The Gulf banks are making a big push towards internationalization in

competition with each other. The narrow economic base at home, the decline in domestic lending opportunities, the legal uncertainties and low margins associated with commercial banking are forcing these banks to seek more business opportunities abroad.

The Gulf banks want to survive and develop more cooperation amongst the GCC countries. They should implement structural revisions, acquire recent development, computerize banking services and have a cadre of highly trained bankers capable of responding to the changing business environment. Whereas trade and contract financing require traditional banking expertise, the new areas of banking activities entail more specialised staff and new management structure that facilitate streamlining in the decision-making process. In financial services, sophisticated management only well trained human resources are perhaps even more important than the capital of the bank. In times of feeble economic conditions long-term strategic planning would be quite useful to help banks succeed in this highly competitive environment. It could help them carve their niche in the domestic, regional and international markets.

It should be clear from the chapter and this illustration that the role of the GCC is very limited in the service sector, so without coordination, cooperation and avoiding the bureaucracy and the administrative problems there will be no integration amongst the GCC countries in the future.

CHAPTER SIX

External Trade And Migration In The G.C.C. Countries

6.1 Introduction

Economic growth in developing countries averaged around 2.8 percent in 1987, noticeably better than in 1986. This modest performance was further accompanied by a marked strengthening of their external payment position. The aggregate current account of the developing countries turned almost into balance from a \$39 billion deficit in 1986. Countries of West Asia which includes Egypt, Jordan, Lebanon, Syria, Iraq, North and South Yemen, as well as the GCC countries, saw the deficit in their current accounts shrinking from \$13 billion in 1986 to \$2 billion in 1987. The corresponding drop in the current account deficit of the six GCC countries was equally significant, from \$5.6 billion in 1986 to \$1.1 billion in 1987. The improvement in the region's external position was accounted for not only by the increase in the surplus of trade but also by the smaller deficit in the balance of invisibles. The positive adjustment in the Gulf countries terms of trade had more than offset the decline in the export volume of oil and boosted the purchasing power of their oil revenues by 7.3 percent, following declines of 36.2 percent and 8.2 percent in 1986 and 1985 respectively.

In 1987 overall improvement in the region's current account position was also due to the maintenance of adjustment efforts aimed at constraining imports. Import volume dropped on average by 7.6 percent in 1987, reflecting the completion of large infrastructural projects and continuing the trend of using resources more efficiently. On the other hand, OPEC's decision to lower its aggregate level of output has not affected all countries in the same way. Some countries increased their oil production in order to halt the downward trend in overall economic activity.

In the services and transfer account, the debit items which largely represents payment to contractors, freight and insurance, remittances of expatriates working in the region and other expenditures on foreign personnel and services have been on the decline in various Gulf states. This is due to the completion of major contracts and a general drop in the demand for foreign workers. The decline in debit items was, however, offset to a large extent by the drop in the level of earnings from foreign investments, leaving the invisible balance for the six Gulf states firmly in deficit.

The trend in the export/import ratios was on the decline over the past few years. The ratio relating current exports to current imports was nearly halved between 1981 and 1987, falling from 2.87 to 1.35 as the drop in export revenues far exceeded the decline in imports. Nevertheless, the ratio for the region as a whole remained above unity throughout this period, suggesting that the Gulf countries can meet their merchandise import requirements from their export proceeds.

There has been a slight turnaround in economic activities in 1987 and 1988 with positive growth being recorded in these two years. The compression of imports which went on for 4 years was reversed in 1987 with a larger increase recorded in 1988. While oil exports moved slightly higher in the last two years, non-oil exports posted a much larger increase, rising in the case of Saudi Arabia by 46 percent in 1988 and 10 percent in the case of Bahrain. Saudi Arabia is by far the largest market in the region, accounting for 53 percent of total GCC imports, followed by UAE (19 percent) of which a good part is re-exported, Kuwait (13 percent), Bahrain (7 percent), Oman (5 percent) and Qatar (3 percent).

According to the latest IMF figures, the international reserves' position of the six Gulf states fell to \$35 billion in 1987 compared with \$92 billion in 1981. Nevertheless, the reserves/import ratio remained firmly adequate for all the Gulf states, ranging from 11.6 months of import coverage for Saudi Arabia and Kuwait

to 6 months of import cover for Qatar, UAE and Bahrain, and 5 months for Oman.

6.2 QATAR

6.2.1 Introduction

The Qatar import market expanded consistently up to 1982 from QR 1.1 bn in 1974 to QR 7.1 mn in 1982. However, since then the trend has been sharply downward, with imports falling to only QR4 bn in 1986 before a slight upturn in 1987. This continued in 1988 with imports reaching nearly QR5 bn. Much of the earlier increase was due to the government's programme of development, notably in industry, and the associated oil and gas developments. Total exports started to fall in 1981, declining to a low of QR 6.7 bn in 1986 before recovering to QR 7.2 bn in 1987 and rising by 3 percent in 1988.

6.2.2 Exports

National exports witnessed some improvements during 1988 compared with 1987 which recorded a noticeable deceleration in exports following the sharp deterioration in oil prices. Despite the fall in quantity, oil exports rose in value by 7.6 percent in 1988. The value of non-oil exports, mainly petrochemicals and fertilizers, also grew by 6 percent against 1987.

Table 6.1: Foreign Trade Summary (QR mn)

Sources	1982	1983	1984	1985	1986	1987	1988
Exports fob	16,405	12,002	12,245	11,277	6,730	7,435	8,045
Imports cif	7,088	5,299	4,230	4,147	4,000	4,128	4,613

Source: Qatar Monetary Agency

The rise in oil exports in 1988 was related to the stability in world oil mar-

kets following the OPEC December 1986 agreement on fixed quotas and prices. According to this agreement, oil production of member countries was reduced and the spot prices of oil was fixed at \$18 per barrel.

Total export posted an increase of QR494.0 million or 7.3 percent to reach QR 8,045 million in 1988. However, if the continued depreciation of the dollar was taken into account, the real value of exports, nominated mainly in dollars, was less than their real level in 1987.

6.2.3 Imports

Figures pertaining to the first half of 1987 reveal some changes in the commodity structure of imports compared with the situation in 1986. The relative importance of machinery and transport equipment jumped to 44.3 percent of total imports during the first half of 1987 against 37.1 percent in the previous year. Manufactured goods came second in relative importance, absorbing 15.8 percent of total imports compared with 18.9 and 19.3 percent in 1986 and 1985 respectively. The group of foodstuffs and live animals came third, with a relative importance of 15 percent compared with 17.2 percent in 1986. This was followed by miscellaneous manufactured goods which accounted for 12.7 percent, against an average of 14 percent during the period 1983-86. Chemicals and related products rose in relative importance from 5.7 percent in 1986 to 6 percent during the first half of 1987. As for the groups of beverage and tobacco, crude materials, inedible, mineral fuels and lubricants, the relative importance for each accounted for 1.7 percent, 3.1 percent, 0.7 percent respectively against 2.4 percent, 3.2 percent, and 0.9 percent in 1986. The group of animal and vegetable oils maintained the same relative importance of 0.5 percent in the first half of 1987.

Table 6.2 shows some changes in the geographical distribution of imports. As shown by Table 6.2 Japan still came first as a source of imports, accounting

Table 6.2: Qatar Imports by Origin (% of total imports by value).

Sources	1984	1985	1986	1987
U.A.E	2.8	2.6	3.1	3.0
Bahrain	0.1	0.1	0.1	0.1
Saudi Arabia	0.7	1.5	2.0	2.6
Oman	0.1	0.1	0.09	0.08
Kuwait	0.3	0.4	0.4	0.4
Japan	20.0	18.2	17.0	16.3
U.K	15.2	16.3	16.5	16.0
W.Germany	7.5	8.7	9.6	7.2
Italy	5.0	4.9	5.3	4.9
France	5.5	7.6	5.1	4.3
U.S.A	9.5	6.5	5.9	11.9

Source: (1) EIU. Country Profile 1989-90; (2) The General Secretariat of the GCC countries - Economic Bulletin.

for 16.3 percent of total imports against 17.0 percent in 1986. UK occupied the second position during the first half of 1987 with a relative importance of 16.0 percent against 16.0 percent in 1986. The United States of America which came fourth in relative importance in 1986, advanced to occupy third position during the first half of 1987 with a relative importance of 11.9 percent against 5.9 percent in 1986. The fall in the value of the dollar played a major role in stimulating further imports from the United States.

Italy came fifth with a relative importance of 4.9 percent, while France came sixth with 4.3 percent, followed by the United Arab Emirates, Saudi Arabia and Kuwait which accounted for 3.0 percent, 2.6 percent, 0.4 percent each respectively

The geographical distribution of Qatar's imports according to the groups

of countries show that European countries continued to take the lead among other groups, forming around 42 percent of total imports against 49 percent in 1986. Asian countries, except Arab countries in Asia, came second with a proportional importance of 27 percent compared with 28 percent in 1986. The two Americas maintained their third position, jumping in relative importance to 19 percent compared with 9 percent in 1986. Followed by imports from Arab countries which accounted for 8 percent during the first half of 1987 against 8 percent in preceding year.

Imports from the countries of the Gulf Cooperation Council accounted for the lion's share, of the latter figure constituting about 76.3 percent of imports from Arab countries (QR 167.2 millions during the first half of 1987). The United Arab Emirates and Saudi Arabia were particularly important among other Gulf countries as a source of goods imported by Qatar.

6.3 KUWAIT

6.3.1 Introduction

The CBA estimates of the merchandise trade balance show that the balance of trade recorded a surplus of KD 532 million in 1988 (KD 988 million in the previous year), as the value of exports and re-exports totalled KD 1974 million, against KD 1442 million for the value of imports. This decline in the trade balance surplus in 1988 is attributed to the decrease in the value of Kuwait's oil exports, as we will explain later.

Source: Central Bank of Kuwait, Economic Report 1988

The geographical distribution of the trade balance surplus in 1988 mainly involved the following countries: Japan (KD 150.9 million), Taiwan (KD 99.5 million), Italy (KD 95.6 million) and Pakistan (KD 87.9 million). Among major

Table 6.3: Balance of Trade

Sources	1986	1987(Estimated, MD)	1988(Estimated, MD)
Balance of Trade(Merchandise)	567	988	532
Exports and Re-exports(f.o.b)	2082	2306	1974
Of which: Oil Exports	1830	2073	1732
Imports(f.o.b)	1502	1314	1403
Non-monetary Gold(Net)	-13	-4	-39

countries that Kuwait's balance of trade runs at a deficit with are the U.S.A. (KD 120.4 million), U.K. (KD 116.1 million) and West Germany (KD 95.1 million). U.A.E. and Saudi Arabia rank fifth and seventh with a deficit of KD 62.7 million and KD 33.8 million respectively.

6.3.2 Exports

The world oil market was characterized by instability due to fluctuations in both the volume of production and the world demand for oil on the one hand, and the change in oil prices, on the other.

The available data shows that the volume of OPEC countries production of oil at certain periods of 1988 exceeded 22 m b/d, compared with their fixed production ceiling of 15 m bld, excluding Iraq's quota. Furthermore, the official price of Arabian light oil dropped from U.S. \$17.5 per barrel in 1987 to U.S. \$13.7 per barrel in 1988. No signs of improvement in oil market prices appeared before the agreement was signed on November 28, 1988 by OPEC's thirteen member states, determining a new ceiling for production quotas and a reference price for the first six months of 1988. This agreement provided for a production ceiling of 18.5 million barrels a day and a reference price of U.S. \$18 per barrel.

Developments witnessed by world oil markets, coupled with the circum-

stances faced by OPEC in 1988, were reflected in the value of Kuwait's oil exports, which decreased by KD 341 million (6.7 percent) below its level in 1987 to reach KD 1732 million in 1988. The lower value of oil exports is attributed to the marked decrease in the price average of these exports. However, despite the decline in the value of oil exports, this value still constitutes the major portion (87.3 percent) of the total value of Kuwaiti exports.

The Kuwait Petroleum Corporation (KPC) continued integrating its downstream operations at home with the marketing of oil abroad in the form of high-quality refined products. To this end, KPC continued its programme to modernise the Kuwaiti refineries, the last of which was Mina Abdulla refinery. Thus, Kuwait was able to raise the operating capacity of its three refineries at Al-Ahmadi, Shuaibah and Mina Abdulla. The KPC policy, based on increasing the exports of refined products and creating outlets in the outside world, particularly in Western Europe, aims at maintaining the stability of the value of oil revenues by protecting it against price fluctuations that frequently predominate in crude oil markets.

Furthermore, the loading capacity of KPC oil tankers increased by the entry into service, in 1988, of two new oil tankers with a capacity of 35,000 tons each, out of six oil tankers for which the KPC signed purchase contracts in 1987.

The value of non-oil exports (excluding the value of exports of non-monetary gold) recorded a slight increase (3.9 percent) in 1988 to reach KD 242 million, against KD 233 million in 1987. This increase came mainly from a rise in the value of Kuwait's exports of chemical fertilizers (KD 7.3 million). On the other hand, the value of re-exports and exports of Kuwaiti origin accounted for 60 percent and 40 percent respectively of the total value of non-oil exports.

Despite the scant increase in the value of non-oil exports, it was the first increase after a series of declines between 1982 and 1987. The marked decline in

the value of non-oil exports during that period is attributed to several reasons, mainly the Iran-Iraq war and its continuation, the rise of national industries in neighbouring countries that are competitive to Kuwaiti industries, and the diversion of part of the re-export and transit trade, which used to pass through Kuwaiti ports, to ports in other Gulf countries.

The most important re-exported goods are transport equipment, machinery, electrical and non-electrical appliances and equipment and clothing and textiles. The most important goods included among exports of Kuwaiti origin are fertilizers and chemicals.

The geographical distribution of the value of Kuwaiti exports is confined to a limited number of countries, five of which account for 48 percent of the total value of Kuwaiti exports. These countries are Japan (18 percent), Italy (9 percent), Holland (8 percent), Taiwan (7 percent) and Pakistan (5 percent).

6.3.3 Imports

In 1988 the value of Kuwaiti imports increased by KD 123 million (9.3 percent) over the previous year. This increase in the value of exports can be explained by several local and international developments, the most important of which are a slight increase in local demand for imports, particularly consumer and intermediate goods, and a rise in commodity prices in the country of origin during 1988.

It was noticeable, however, that the pattern of economic classification of Kuwaiti imports in 1988 is not different from the prevailing pattern of the past few years, where consumer goods ranked first (39 percent) within the total value of imports, followed by intermediate and capital goods at rates of 37 percent and 23 percent respectively. However, the ratio of Kuwait's imports from the countries of this group to total imports began declining in 1987 and 1988, reaching 69 percent

and 62 percent respectively, for several reasons, mainly the successive increase in the prices of goods of the industrial countries. Further, it can be noticed that five industrial countries account for 51 percent of the total value of imports. The ratio is distributed as follows: Japan (14 percent) the U.S.A. (14 percent), the U.K. (8 percent), West Germany (8 percent) and Italy (6 percent). Kuwait imports several products from industrial countries, mainly cars, automobile spare parts and accessories, oil drills, pipes, electrical appliances and cigarettes.

Table 6.4: Imports from Ten Major Countries(Million Dinars).

Country	1987		Country	1988	
	Value	Relative Weight%		Value	Relative Weight%
Japan	271.3	18.4	Japan	215.1	14.4
U.S.A	158.2	10.7	U.S.A	212.9	14.3
W.Germany	127.9	8.7	U.K	133.5	8.9
U.K	115.5	7.8	W.Germany	121.7	8.2
Italy	94.6	6.4	Italy	95.6	6.4
France	78.0	5.3	Turkey	89.7	6.0
Turkey	77.6	5.3	U.A.E	79.6	5.1
S.Korea	59.0	4.0	Saudi Arabia	76.4	5.1
Saudi Arabia	53.0	3.6	S.Korea	67.2	4.5
U.A.E	50.1	3.4	France	56.1	3.8
Total	1086.1	73.6	Total	1147.8	76.9

Source: Central Bank of Kuwait, the Economic Report 1988

In terms of relative weight within the total value of Kuwaiti imports, after the group of industrial countries, come the Arab countries and the Asian non-Arab countries, with an equal share of 14 percent each. The U.A.E. and Saudi Arabia ranked seventh and eighth among the ten major countries within the total

value of Kuwaiti imports at 5 percent and 5 percent respectively. Meanwhile, Turkey and South Korea came at the top of non-Arab Asian countries exporting to Kuwait. This can be attributed to the relatively low prices of goods imported from these two countries, compared with prices of goods imported from the industrial countries.

6.3.4 Kuwait's Trade with the G.C.C. Countries

Kuwait's trade with the G.C.C. countries continued its growth, started in 1987, at accelerating rates to reach KD 285.3 million (an increase of 32 percent) in 1988. This value was close to the high level realized in 1982 (KD 284.1 million).

The value of Kuwait's imports from the G.C.C. countries in 1988 totalled KD 189.1 million. The noticeable increase (55 percent) in this value compared with its level in 1987 shows the relative stability in the upward trend of these imports over the past few years. The value of Kuwaiti imports from these countries was divided into goods of national origin (71 percent) and goods of non-national origin (28 percent). Further, the increase in the value of imports was also divided into the value of imported goods of national origin (56 percent) and others of non-national origin (50 percent).

The increased value of Kuwait's imports of goods of national origin from the G.C.C. countries may be attributed to the increased local demand resulting from the growing competitiveness of these goods, which also justifies the expansion and growth of both industrial and agricultural sectors in these countries. Moreover, the increased value of Kuwait's imports of goods of non-national origin from the G.C.C. countries reflects the developing and flourishing commercial role played by these countries in the region.

Kuwait's exports to the G.C.C. countries in 1988 totalled KD 69.2 million (a decline of 5.3 percent below 1987), indicating an 8.3 percent increase in the

value of Kuwaiti exports of national origin over the the previous year, against a decrease of 22.6 percent in the value of Kuwait's exports of non-national origin.

The distribution of trade by products between Kuwait and the G.C.C. countries can be divided into three main groups: animal and agricultural products, industrial products and natural products. Industrial products ranked first in the components of the balance of trade between Kuwait and the G.C.C. countries, as they accounted for 86 percent of the total value of Kuwait's imports from these countries in 1988. The most important components of industrial products that Kuwait imports from the G.C.C. countries were concentrated in chemicals, iron bars, plastic products and cement. Furthermore, both animal and agricultural products and natural products ranked second and third in the priority list of Kuwaiti imports from the G.C.C. countries.

Table 6.5: Value of trade between Kuwait and G.C.C. Countries(Million Dinars)

	1987				1988			
	Exports		Imports		Exports		Imports	
Country	Value	%	Value	%	Value	%	Value	%
Saudi Arabia	48.9	66.9	53.0	43.4	42.6	61.6	76.4	40.4
U.A.E	15.9	21.7	50.1	41.1	16.9	24.5	79.6	42.1
Bahrain	3.8	5.2	7.5	6.2	4.7	6.8	12.0	6.4
Qatar	2.5	3.5	10.8	8.9	2.8	4.0	17.8	9.4
Oman	2.0	2.7	0.6	0.4	2.2	3.1	3.2	1.7

Source: Central Bank of Kuwait, The Economic Report, 1988.

As for Kuwait's exports to the G.C.C. countries, industrial products, concentrated manufactured foods, constituted 97 percent of the total value of these

exports. Meanwhile, agricultural and animal products, mostly dairy products, accounted for the remainder.

Saudi Arabia and the U.A.E. captured the major portion of Kuwait's trade with the G.C.C. countries. The share of these two countries constitutes 82 percent of the value of Kuwait's imports and 86 percent of the value of its exports. After Saudi Arabia and the U.A.E. come Qatar, Bahrain and Oman.

6.3.5 Government Procedures to Activate Foreign Trade

During 1988 the concerned authorities continued their efforts to support and activate the momentum of Kuwait's foreign trade. They also adopted certain measures to secure more protection for domestic industries. Some agreements for economic and trade co-operation were concluded between Kuwait and other countries, one with Tunisia, another with Algeria and a third with Denmark. Furthermore, Kuwait participated in regional and international conferences on developing regulating trade among countries.

Locally, the Ministry of Commerce and Industry took three decisions extending the period of customs protection for a number of domestic manufactured consumer goods. The Ministry also passed another decision regulating the re-export of certain foodstuffs imported by the Kuwaiti Supply Company and another decision exempting from customs duties imports similar to domestic products of wood furniture imported for personal use.

6.4 BAHRAIN

6.4.1 Introduction

Bahrain is traditionally an entrepot, re-exporting chiefly to Saudi Arabia, though this trade has been affected by the development of Saudi ports. Domestic exports (excluding re-exports) have risen mainly because of aluminium. Bahrain's

major import is crude oil, which is bought from Saudi Arabia for the Sitra refinery.

6.4.2 Exports

Total non-oil export trade increased from BD 142.6 million in 1984 to BD 218.5 million in 1988. The growth in exports was mainly due to the rise in exports of manufactured goods, machinery and transport equipment and chemicals. Exports from the bonded area increased to about BD 51.8 million in 1988, which compared to BD 31.0 million in 1988. Transit trade also increased to BD 8.8 million which compared to BD 6.3 million in 1986.

Total value of exports of crude oil and refined products declined, largely due to a fall in the crude oil and product prices. Total exports were valued at BD 688.2 million in 1988 (as against BD 1062.1 million in 1984 and 959.6 million in 1985).

Table 6.6: Summary of Exports

	Exports						
	Non-Oil						
End of Period	Bahrain	Re-Export	Bonded Area	Total Non-Oil Exp.	Oil	Total Exports	Transit Shipment
1983	115.3	54.6	31.0	200.9	972.0	1172.9	29.9
1984	91.5	13.1	38.0	142.6	1062.1	1204.7	16.6
1985	61.9	13.5	54.2	129.6	959.6	1089.2	10.9
1986	100.5	13.1	26.1	139.7	687.3	827.0	6.3
1987	115.9	11.5	29.6	157.0	756.5	913.5	8.6
1988	154.1	12.6	51.8	218.5	688.2	906.7	8.8

Source: Bahrain Monetary Agency - Quarterly Statistical Bulletin - Sept. 1989

6.4.3 Imports

Non-oil imports decreased by 56.8 million from BD 632.8 million in 1985 to BD 576.0 million in 1988. A considerable fall in non-oil imports was registered in imports into the bonded area during 1988-BD 87.0 million as against BD 145.3 million in 1985. Imports into Bahrain declined by BD 163.4 million from BD 590.0 million in 1984 to BD 426.6 million in 1987. The value of crude oil imports was lower, as in the case of oil exports, on account of depressed international oil prices. Oil imports contracted by BD 70.6 million or 15 percent from BD 469.7 million in 1987 to BD 399.1 million in 1988.

In addition to Saudi crude oil it also imports alumina from Australia and there is a sizeable trade in gold. Japan, the UK and USA are traditionally Bahrain's leading suppliers, with the UK and the USA vying for first place since 1985.

Bahrain's major exports are products from the Sitra refinery and Abu Saafa crude, which together accounted for 75 percent of total exports in 1988. Japan and the USA are major customers for Bahraini products, although Saudi Arabia has become the most important since 1987.

Trade with the Gulf Cooperation Council States was lower in 1984, mainly due to a substantial fall in the exports to the states. Total exports in 1986 to the GCC Countries amounted to BD 14,418 million as against 7,656 million in 1985. Imports from these areas increased by BD 22,508 million in 1986. (Statistical Abstract 1987).

Bahraini exports to other GCC states comprising mainly aluminium, furniture, water pipes, medical syringes, fruit juice, leather goods and air conditioners, in 1988 totalled BD 59 mn, 195 percent up on 1987 when they stood at

Table 6.7: Total Non-Oil Imports (%) Classified by Countries.

Contry	1983	1984	1985	1986	1987	1988
GCC. Countries	3.5	4.5	4.2	5.1	7.4	11.5
Kuwait	0.2	0.3	0.4	0.6	0.7	1.1
Saudi Arabia	0.8	1.1	1.1	1.6	3.2	6.0
U.A.E	2.3	2.6	2.3	2.7	3.2	4.0
Qatar	0.1	0.3	0.3	0.1	0.2	0.3
Oman	0.1	0.2	0.1	0.1	0.1	0.1
Asian Countries	36.5	34.0	32.5	32.1	24.4	28.2
Japan	27.5	24.9	23.5	21.0	12.9	14.4
Thailand	0.8	1.0	0.9	1.5	1.6	2.0
Taiwan	1.7	1.8	1.5	1.8	1.9	2.4
China	1.1	0.9	0.8	1.1	1.3	1.5
Singapore	1.5	1.6	1.2	1.4	1.3	1.7
Pakistan	1.1	1.1	1.0	1.1	1.1	1.3
India	1.7	2.4	2.7	3.4	3.2	3.8
HongKong	1.0	0.9	0.9	0.8	1.1	1.1
European Countries	36.7	32.5	33.4	33.7	35.2	38.5
Belgium	1.0	1.3	1.5	1.8	1.2	1.2
Denmark	1.5	1.6	1.7	1.7	1.6	1.8
W.Germany	10.7	8.0	7.6	8.2	6.5	8.5
France	5.3	3.4	3.6	3.6	3.4	4.4
U.K	18.2	18.2	19.0	18.4	22.5	23.0
American Countries						
U.S.A	15.2	18.7	21.8	20.7	23.6	13.2
Canada	0.2	0.3	0.3	0.5	1.1	0.4
Oceanic Countries						
Australia	6.9	8.4	6.7	6.4	6.8	6.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bahrain Monetary Agency.

BD 20mn. Saudi Arabia was the main market, taking BD 42 mn worth of goods in 1988 compared with BD 19mn in 1987.

6.5 OMAN

6.5.1 Introduction

The Sultanate continues to maintain a liberal exchange system without any restrictions on external payments or transfers in regard to current or capital transactions. The Omani Rial remains pegged to the US Dollar at the rate fixed after the 10 percent devaluation effected in January 1986.

There are virtually no trade restrictions except for the petroleum products used as fuel which the Oman Refinery Company produces on an adequate scale to meet domestic demands. Import duties levied are generally low, at 5 percent, and only about one half of imports are dutiable. In a few select cases, however, higher custom duties are levied for the purpose of protecting domestic infant industries.

The extent of the openness of the economy can be gauged by the ratio of its aggregate value of exports and imports to gross domestic product plus imports. The ratio stood at 59 percent in 1987. During 1988, oil prices in the world market weakened compared to the previous year. This had an unfavourable impact on the external balance of the country as oil accounts for major portion of the Sultanate's export receipts.

6.5.2 Exports

Omani exports can be categorised into three main groups: oil and related products, non-oil commodities of domestic origin and re-exports. Despite the substantial declines in oil exports receipts in 1986 and 1988, it continued to account for the major portion of export revenues. With the exception of these two years when it accounted for about 90 percent and 88 percent, respectively, it had otherwise accounted for more than 90 percent.

Since 1981 oil exports in quantity have been increasing steadily at an average annual rate of 9.6 percent, from an average export of 278.7 thousand barrels a day in 1980 to 580.5 thousand barrels in 1988. Oil prices on the other hand have been on a declining trend during this period, from an annual average high of US \$36.9 per barrel in 1980 and 1981 to US \$13.46 per barrel in 1986. In 1987 it rose to US \$17.30 per barrel but fell again to US \$13.7 per barrel in 1988.

Asian countries, mainly Japan, have been the main export markets, accounting for over 90 percent of crude oil exports in 1988. Japan's share increased to 50 percent in 1988 compared to 41 percent during the previous year. The Republic of Korea's share also increased from 16 percent in 1987 to 25 percent in 1988, while that of Taiwan decreased from 10 percent to 6 percent. The Sultanate also continues to export to other regular customers such as Singapore, Thailand and India, while also commencing exports to China.

Re-exports after having declined in 1986 to RO 85.0 million from RO 97.1 million in 1985 stayed the same in 1987 as in the previous year, while in 1988 they rose by 8 percent to RO 92.0 million. Over 75 percent of re-exports are of machinery and transport equipment. In fact, road vehicles and other transport equipment accounts for over 57 percent of re-exports. About 55 percent of re-export is to G.C.C. countries. The major part of all is to U.A.E. which alone accounts for almost 50 percent of total re-exports.

During 1987 and 1988, a significant jump in the value of non-oil exports of domestic origin took place. In 1987 it rose by RO 12.3 million or by 46 percent from RO 26.6 million to RO 38.9 million. In 1988 it increased more substantially by RO 24.0 million or by 61 percent to RO 62.9 million. Copper exports jumped substantially by 81.4 percent in 1988 over 1987 from RO 9.6 million to 17.4 million. Quantumwise, the increase was 28.5 percent from 14,116 metric tons in 1987 to

Table 6.8: Direction of Oil Exports (in Million Barrels)

Country of destination	1984	1985	1986	1987	1988
Japan	83.2	109.3	99.9	80.4	104.6
Singapore	11.3	4.8	3.5	12.1	5.1
France	0.3	1.9	6.0	-	2.7
Netherland	2.5	-	-	3.6	0.8
Italy	-	-	-	7.6	-
China	-	-	-	-	4.6
U.K	-	-	0.6	0.6	-
Korea	22.2	23.2	31.6	31.0	52.1
Brazil	-	-	-	6.1	7.7
Australia	0.3	0.3	0.9	-	-
Belgium	-	-	0.9	-	-
U.S.A	3.9	-	4.1	13.3	2.4
Phillipines	0.6	-	-	3.1	5.4
Taiwan	1.6	4.4	12.1	20.0	13.6
India	4.6	6.2	14.0	7.5	2.3
Thailand	1.6	11.0	8.7	7.1	4.7
Greece	-	-	-	-	2.6
Srilanka	-	-	-	-	1.6
Others	2.9	3.7	5.1	4.7	1.7
Total	135.0	164.8	187.4	197.1	211.9

Source: Central Bank of Oman - Annual Report 1988

18.137 metric tons. Another major increase registered was in fish exports which rose by 60.2 percent in 1988 from RO 11.8 million in 1987 to RO 18.9 million. Quantity wise the rise was 71.2 percent, from 20,647 metric tons in 1987 to 35,350 metric tons. Other exports also registered significant increases.

6.5.3 Imports

Recorded imports reached RO 846.5 million during 1988. This, when compared to the previous year, represents an increase of RO 145.8 million or 20 percent. One third of the recorded imports for the Sultanate were of machinery and transport equipment. They amounted to RO 284.0 million which was higher by RO 22.7 million or by 8 percent over the previous year.

Manufactured goods, which accounted for more than one fifth of total recorded imports in 1988, registered the highest increase of RO 55.5 million or 43 percent as it reached RO 182.8 million. Over one sixth of recorded imports were in food and live animals which recorded an increase of RO 125.0 million (11 percent) to reach RO 147.3 million. Miscellaneous manufactured articles and commodities and transactions not classified elsewhere also recorded big increases during the year to the tune of RO 22.1 million (31 percent) and RO 34 million (172 percent), respectively. With the exception of minerals, fuels, lubricants and related material which registered a significant decline of RO 9.1 million (41 percent); other imports showed considerable increases. As pointed out earlier, the increase in imports is due to the acceleration in economic activity during the year.

As Table 6.9 shows, Japan was Oman's leading supplier between 1981 and 1988, followed by the UK. Japan, UK and USA held respectively the first three positions for 1988 as the largest exporters to the Oman. Japan ranked first, accounting for 16.8 percent of total imports of Oman. UK was second, accounting for 13 percent, followed by USA in third position, accounting for 8 percent. Next in importance was West Germany accounting for 5 percent.

Oman's trade with its neighbours is no exception and the creation of the GCC in 1980 coupled with the vast economic developments that have evolved in the region in the last two decades, has given momentum to the pace of trade. The UAE being the closest next door neighbour to Oman tops both lists of Omani non-petroleum exports and imports.

Table 6.9: Value of Imports by Regions and Countries of Exports
(% of total imports by value)

Country	1983	1984	1985	1986	1987	1988
Japan	22.0	21.3	20.2	14.4	15.2	16.8
U.K	18.6	16.6	16.4	17.9	14.7	13.3
U.S.A	7.7	7.6	5.7	7.6	6.7	8.8
W.Germany	7.3	9.5	7.8	9.0	8.8	5.2
Italy	-	-	-	-	-	4.1
Netherlands	3.4	3.1	3.1	4.0	4.5	-
India	2.3	2.3	2.3	2.2	3.7	-
France	2.1	2.9	3.8	3.6	3.6	-
Bahrain	0.2	0.2	0.4	0.4	0.7	-
Qatar	0.01	0.2	0.7	0.3	0.2	-
Kuwait	0.08	0.1	0.2	0.1	0.4	-
Saudi Arabia	0.0	0.0	0.0	0.02	0.1	-
U.A.E	17.5	17.8	21.1	18.7	21.0	21.0

Source:

- (1) The Economist Intelligence Unit - Country Profile 1989-90.
- (2) Sultanate of Oman - Foreign Trade Statistics - Dec 1987

Table 6.9 shows very clearly that among the G.C.C. countries, UAE is by far the major exporter to Oman. It is to be noted, though, that most of the goods imported from the UAE are not of UAE origin, but are re-exported. The UAE market, especially that of Dubai, is basically re-export oriented and, as such, it is engaged in bulk import for their own and neighbouring markets. Bulk imports from the sources of origin reduces costs for various reasons. Unit price paid to the supplier becomes lower. Furthermore, there are gains associated with transport costs, as well as insurance. Besides, the number of their sea ports and adequacy

of warehousing facilities, is another advantage contributing to quick handling and the reduction of storing costs.

6.6 SAUDI ARABIA

6.6.1 Introduction

The country depends on imports for a large proportion of its manufacturers and much of its foodstuffs. Capital goods make up the bulk of imports but consumer products are coming increasingly into the picture. The USA has traditionally been the leading supplier, but was displaced temporarily by Japan in 1984 and 1985 and again in 1987. The major clients for Saudi crude and refined oil are to be found in Asia and Western Europe, with the Far East becoming the most important market for the first time in 1982. In 1986 Saudi Arabia regained its position as leading oil exporter to the USA. Non-oil exports, including petrochemicals, light manufactures and wheat, have also begun to feature significantly.

6.6.2 Exports

The Kingdom's foreign trade and balance of payments position manifested some positive developments during 1987/1988. For the first time in six years, oil exports recorded a remarkable increase of 32 percent reaching Rls 10.4 billion. The surge in non-oil exports reflected the Kingdom's success in diversifying its economic base, reducing dependence on oil as a major source of export earnings, and encouraging the private sector to play a more effective role in the economic field. There was an increase in imports but at a rate lower than that in exports. As a result, a rise was recorded in the trade surplus for the first time since 1981/1982.

During 1987/1988, the Kingdom's oil exports rose to Rls 76.5 billion, increasing by Rls 9.6 billion, or 14 percent, over those of 1986/1987 (Table 6.10).

Table 6.10: Oil Exports (Million Riyals)

Sources	1982/83	%	1984/85	%	1986/87	%	1987/88	%
Crude	190,676	93	106,454	90	54,265	81	55,171	72
Refined, of which	14,228	7	11,775	10	12,622	19	21,330	28
Burker Fuef	975	-	384	-	222	-	230	-
Total	204,904	100	118,229	100	66,887	100	76,501	100

Source: Saudi Arabian Monetary Agency - annual report 1988.

This was mainly due to improvement in oil prices during the period under review.

A breakdown of oil exports by product indicates that crude oil exports of Rls 55.2 billion depicted an increase of 2 percent over the preceding year, while refined products recorded a notable rise of 69 percent, reaching Rls 21.3 billion. Consequently, the share of refined products in total oil exports went up from 19 percent in 1986/87 to 28 percent in 1987/88, signifying the expansion and improvement of the refining sector in the Kingdom.

6.6.3 Imports

Imports (CIF) increased by 6 percent to Rls 75.3 billion during 1987/88 as compared with Rls 70.8 billion in 1986/87 (Table 6.11) it registers an increase for the first time since 1982/83.

The increase in imports during the year, appears to be attributable partly to the resumption of growth in economic activity following completion of the adjustment process, and partly to the rise in cost of imports resulting from appreciation in the exchange rate of some major currencies and the impact of inflation in some other partner countries.

The private sector imports financed through commercial banks increased by 12 percent, from Rls 43.5 billion in 1986/87 to Rls 48.7 billion in 1987/88.

Table 6.11: Imports(CIF)

Year	Total(Million RLS)	% Growth
1982/83	136,098	+12
1984/85	106,968	-16
1986/87	70,780	-10
1987/88	75,313	+6

Source: Saudi Arabian Monetary Agency - annual report 1988

The share of private sector imports financed through commercial banks in total imports rose from 61 percent in 1986/87 to 65 percent in 1987/88, reflecting the growing use of banking services for imports.

The composition of imports financed through commercial banks during the year under review indicates that imports of foodstuffs (Rls 7.9 billion) maintained top position, in spite of a decline of 4 percent in their value and of 3 percentage points in their relative share in total imports from (19 percent to 16 percent) . The decline is indicative of the success in the Kingdom's policy of achieving self-sufficiency in food.

Motor vehicle imports (Rls 6.7 billion) moved from the third to the second position due to a sharp increase of 38 percent in their imports for the first time since the decline which started in 1983/84.

The rise in the value of motor vehicles imports was accounted for mainly by an increase in their number. This was due partly to entry of new types of cars and increased sales promotion by car dealers and easier payment facilities. As a result, their share in total imports rose from 11 percent in 1986/87 to the third.

Although imports of textiles and clothing increased by 15 percent, their

Table 6.12: Private Sector Imports Financed Through Commercial Banks (Amounts in million Rls)

Sources	1984/85		1986/87		1987/88	
	Amount	%	Amount	%	Amount	%
Foodstuffs	9,717	17	8,209	19	7,854	16
Textiles and Clothing	6,167	11	5,283	12	6,058	12
Construction materials	6,173	11	4,314	10	3,872	8
Motor vehicles	6,594	11	4,854	11	6,684	14
Machinery	6,093	10	3,089	7	2,973	6
Appliances	4,595	8	3,702	9	4,507	9
Other goods	18,392	32	14,049	32	16,791	35
Total	57,731	100	43,500	100	48,739	100

Source: Saudi Arabian Monetary Agency

relative share in the total remained at 12 percent. Appliances (Rls 4.5 billion) recorded the second highest rise of 22 percent and, hence, moved up from fifth to fourth position, accounting for 9 percent of the total imports and maintaining the same share as in the 1986/87. The rise in appliance imports may have been due primarily to the higher landed cost resulting from the appreciation of some major foreign currencies. Construction materials (Rls 3.9 billion) continued their downtrend which began in 1983/84, recording a fall of 10 percent in their imports. Thus, they moved back to the fifth position, and their share dropped to 8 percent compared with 10 percent in the 1986/87. The further drop in construction materials' imports is attributable to continued slowdown in the construction sector, following the completion of major infrastructure projects, as well as to the increase in domestic production of construction materials and surplus in supply of housing. Machinery imports fell by 4 percent, reducing their share from 7 percent in 1986/87 to 6 percent in 1987/88. Other imports (Rls 16.8 billion) increased by

20 percent. As a result, their share in total imports rose from 32 percent to 35 percent.

Import data by origin (Table 6.13) indicate that the Kingdom's total imports from Japan (Rls 13.0 billion), which increased in 1987/88 by 17 percent, registered the highest growth rate among the major industrial countries group. This increase followed a four year period of continuous decline. Imports from UK (Rls 5.8 billion) witnessed a rise for the second consecutive year, increasing by 14 percent. Imports from West Germany, which witnessed a downtrend starting in 1983/84, registered a rise of 1 percent to Rls 5.8 billion. Imports from the remaining industrial countries declined. Imports from USA showed a decline for the fifth consecutive year, falling by 7 percent to Rls 11.5 billion in 1987/88. Imports from Italy (Rls 5.1 billion) and France (Rls 4.0 billion) recorded a marginal fall of 1 percent each. On the whole, the Kingdom's imports from all the industrial countries mentioned above (45.3) billion) showed a rise of 4 percent, while its imports from the other 8 industrial countries (Rls 7.3 billion) and the rest of the world (Rls 22.8 billion) recorded increases of 9 percent and 11 percent respectively.

In terms of percent share, Japan regained the first position as the leading exporter to the Kingdom, accounting for 17 percent of total imports. The USA dropped to the second position, accounting for 15 percent. The UK moved up to the third position (8 percent), and West Germany maintained the same share but dropped to the fourth position. Italy (7 percent) also moved down from the fourth to the fifth position. France maintained its sixth position, with a share of 5 percent. These countries together accounted for about 60 percent of the Kingdom's total imports in 1988 compared with 62 percent in the 1987. The remaining industrial countries contributed about 10 percent, while the rest of the world accounted for the balance of 30 percent. It is worth mentioning that the share of the rest of the world has tended to rise over the years, from 21 percent

Table 6.13: Saudi Imports by Origin (Million Rls)

Country	1985	%	1986	%	1987	%	1988	%
GCC	1670	1.8	1616	2.5	1417	3	1364	2
U.A.E	614	0.6	536	0.8	491	1.0	445	0.7
Bahrain	307	0.3	347	0.5	235	0.4	234	0.3
Kuwait	486	0.5	472	0.7	407	0.8	422	0.6
Qatar	239	0.2	232	0.3	251	0.5	216	0.3
Oman	24	0.2	29	0.4	33	0.6	47	0.7
Western Europe	44,728	48.2	28,480	44.3	21,871	46	28,055	45
W.Germany	9,861	10.6	6,768	10.5	4,472	9.5	5,827	9.2
Italy	8,595	9.2	5,783	9.0	4,242	9.0	5,145	8.1
U.K	6,898	7.4	4,806	7.5	4,301	9.0	5,847	9.2
France	9,252	9.9	3,963	6.0	3,324	7.0	3,966	6.2
Other 8 Industrial Countries	10,122	10.9	7,160	11.0	5,532	11.5	7,270	11.5
Asian(Non-Islamic and Non-Arab Countries)	27,851	30	20,549	32	14,004	30	22,162	35
Japan	21,093	23	14,502	22.5	9,140	19.5	12,996	20.5
India	945	1.0	857	1.5	636	1.5	861	1.5
Thailand	738	0.7	620	0.9	547	1.0	966	1.5
Singapore	1,213	1.3	848	1.5	622	1.5	754	1.0
China	679	0.7	740	1.1	619	1.5	2,917	4.5
S.Korea	3,183	3.5	2,982	4.5	2,440	5.0	3,668	6.0
North America								
U.S.A	18,448	20	13,557	21.2	9,968	21	11,492	18
Total	92,697	100	64,202	100	47,260	100	63,073	100

Source: Saudi Arabian Monetary Agency

in 1982/83 to 30 percent in 1988. Mainland China moved from the sixth to the fourth position, while Thailand moved up from the tenth to the seventh position. India dropped to the eighth position. Singapore dropped from the eighth to the

Table 6.14: Saudi Non-Oil Trade with the G.C.C. Countries (Million Riyals)

GCC	1985/86			1986/87			1987/88		
	Imports	Exports	Difference	Imports	Exports	Difference	Imports	Exports	Difference
U.A.E	536	329	-207	491	222	-269	445	368	-77
Bahrain	347	134	-213	235	55	-180	234	128	-106
Kuwait	472	302	-170	407	301	-106	422	608	+186
Qatar	232	116	-116	251	89	-162	216	118	-98
Oman	29	42	+13	33	22	-11	47	45	-2
Total	1,616	923	-693	1,417	689	-728	1,364	1,267	-97

Source: Saudi Arabian Monetary Agency

tenth position.

6.6.4 Non-Oil Trade with G.C.C. Countries

The Kingdom's non-oil exports to the Gulf Cooperation Council countries went up during 1987/88 by 84 percent to Rls 1,267 million as compared with Rls 689 million in 1986/87. The increase is attributed to the rise in Saudi exports of industrial products by 125 percent and agricultural and animal products by 39 percent. This increase is a manifestation of the development of the Kingdom in industrial and agricultural sectors. The Kingdom's non-oil imports from GCC members, on the other hand, declined by 4 percent, from Rls 1,917 million in 1986/87 to Rls 1,364 million in 1987/88 Table(6.14).

As a result of the rise in the Kingdom's export to and fall in its imports from its GCC partners, the trade surplus in favour of GCC countries in their non-oil trade with the Kingdom declined from 728 million in 1986/87 to Rls 97 million in 1987/88. Kuwait continued to maintain its position as the largest Gulf market for Saudi exports and accounted for 48 percent (Rls 608 million) of the Kingdom's

total non-oil exports to GCC countries, followed by the UAE with a share of 29 percent (Rk 368 million). Bahrain and Qatar exchanged position, the former moving up to the third position, accounting for 10 percent (Rls 128 million) of the total, while the latter dropping to the fourth position, accounting for 9 percent (Rls 118 million). Oman continued to occupy the fifth position, accounting for about 4 percent (Rls 45 million) of total Saudi non-oil exports to GCC countries.

The rate of growth of the Kingdom's non-oil exports to all GCC countries in 1987/88 varied considerably. The exports to Bahrain recorded the highest rate of increase (133 percent), which may partly be attributable to better movement between the two countries made possible by the King Fahad Causeway. The second highest increase in exports was accounted for by Oman (105 percent), followed by exports to Kuwait (102 percent). The Kingdom's exports to the UAE rose by 66 percent and to Qatar by 33 percent. With respect to the Kingdom's non-oil imports from GCC countries, the UAE's share was about one-third (Rls 445 million), followed by Kuwait which accounted for about 31 percent (Rls 422 million) Bahrain contributed 17 percent (Rls 234 million), Qatar 16 percent (Rls 216 million) and Oman 3 percent (Rls 47 million). Four GCC countries achieved a trade surplus with the Kingdom during 1987/88, namely, Bahrain (Rls 106 million), Qatar (Rls 98 million), and Oman (Rls 2 million). For the first time, a surplus was recorded by the Kingdom in its trade with Kuwait (Rls 186 million).

6.7 UAE

6.7.1 Introduction

The UAE traditionally enjoyed a substantial trade surplus. Imports peaked at Dh 36 bn in 1981, following the oil price rises of 1979-80, the much increased budget of 1980 and the fresh influx of immigrants that occurred after the second oil boom. From 1982 onward imports declined, reaching a low of Dh 23.6 bn in 1986. In the two following years they rose again, climbing to Dh 31.3 bn in 1988. The trade balance, meanwhile, reflected the sharply fluctuating export earnings during that period: the trade surplus peaked in 1986 at Dh 34.6 bn, falling to a low of Dh 20.3 bn in 1987. According to the IMF Direction of Trade Statistics, the trade surplus narrowed further to Dh 15.2 bn in 1988.

6.7.2 Exports

The value of non-oil exports was estimated to have reached about Dh 5.4 billion in 1988, an increase by 2.0 percent compared to 1987. This estimated figure includes the values of exports of petroleum products from the emirate of Abu Dhabi, exports of goods from the emirates of Abu Dhabi, Dubai and Shajah, and estimates of the value of exports from the rest of the emirates, in addition to the emirate of Abu Dhabi's exports of fertilizers, oils, chlorine and other commodities.

In view of the decline by about 20 percent in oil prices in 1988, compared to 1987, a drop in prices, and consequently in the value of petroleum export products was quite inevitable, particularly with the fact that the volume of exports of these products in 1988 was almost equal to the volume exported in 1987. Accordingly, the value of petroleum exports from Abu Dhabi National Petroleum Company's (ADNOC) refineries (Ruwais and Umm Al-Nar) dropped by 12 percent. The decline in exports of petroleum products in 1988 has led to a drop

in the relative significance of the group of mineral fuels and lubricants (group 3) which decreased to 61 percent compared to 70 percent in 1987.

Table 6.15: Structure of Non-Oil Exports(1)(In Million of Dh)

Groups	1986	1987	1988
0. Food and Live Animals	91.05	86.68	70.12
1. Beverages and Tobacco	35.79	27.52	50.31
2. Crude Materials	82.70	101.07	139.67
3. Mineral Fuels, Lubricants and related materials ²	2,286.02	3,216.63	2,818.32
4. Animal and Vegetable oils	0.14	1.62	2.60
5. Chemicals	82.68	81.08	92.74
6. Manufactured Goods classified by materials	800.66	978.61	1,251.00
7. Machinery and Transports Equipments	152.76	27.55	57.34
8. Miscellaneous Manufactured Articles	33.47	68.00	121.05
9. Other Commodities	-	-	0.04
Total	3,565.27	4,588.76	4,603.19

1. Include Abu Dhabi, Dubai and Sharjah Exports only.
2. Data include values of petroleum products originating from Abu Dhabi refineries.

Source: Central Bank Bulletin, June 1989.

Nevertheless, the total value of non-oil exports has not declined due to the increase in value of exports of all other goods groups, and the increase in value of exports of the group of manufactured goods classified by material (group 6) which resulted from the rise in international aluminium prices. Prices of aluminium rose by 25 percent in 1988, compared to 1987 and by 44 percent compared to 1986, while the volume of exports thereof in 1988 exceeded the volumes exported in 1987 and 1986 by only 6 percent and 4 percent respectively. Accordingly, the relative

significance of group 6 grew from 21 percent in 1987 to 27 percent in 1988. Japan ranked first among importers of Dubai's aluminium, receiving about 65 percent of total exports, followed by the U.S.A. (12 percent).

The value of exports of group 8 (miscellaneous manufactured articles) has also increased by 78 percent compared to 1987. Such an increase was mainly due to the substantial growth in exports of ready-made clothes from various factories in the country. These exports have rapidly shown increased competitiveness in terms of prices and quality, causing the initiation of a quota system in the U.S.A. for its imports of U.A.E. ready-made clothes (the U.S.A. receives the lion share of U.A.E. exports of ready-made clothes).

Re-export activity is one of the prominent features of the U.A.E.'s foreign trade. Dubai emirate has emerged as the major trading centre for re-export activities in the Gulf. The integrated infrastructure schemes and trade promotional facilities extended by Dubai, in particular, and the other emirates of Abu Dhabi and Sharjah have boosted the re-export of goods from the U.A.E. to the Gulf states, Iran and other countries in Asia, East Africa and Europe. The value of U.A.E.'s re-exports value have shown substantial increase during the period 1981-87, increasing from Dh 3.8 billion to Dh 6.9 billion, registering an annual average increase of 11.6 percent. Developments in value of re-exports according to types of goods (Table 6.16) show that capital goods have recorded the largest increase in 1988, with the value thereof growing by 25 percent, consumer goods followed next with an increase by 29 percent, then intermediate goods by 6 percent, and other goods by 17 percent. The reason behind these developments may be attributed to the changes in the destinations of re-exported goods. Re-exports to Iran, for example, have decreased and these were usually in the category of consumer goods.

6.7.3 Imports

Table 6.16: Structure of Recorded Re-Exports. (In mn. of Dh)

Sources	1987		1988	
	Amount	%	Amount	%
Consumer Goods of which	4,318.8	65.1	4,715.8	62.9
(Foodstuff and Tobacco)	(1,696.4)	(25.6)	(1,465.7)	(19.5)
Intermediary Goods	396.3	6.0	419.1	5.6
Capital Goods	1,616.5	24.4	2,023.8	27.0
Others	306.5	4.6	339.7	4.5
Total	6,638.1	100	7,498.4	100

Source: Central Bank Bulletin, June 1989

The geographical distribution of exports and re-exports in 1988 shows that Saudi Arabia has received 12.7 percent of total exports and re-exports, followed by Qatar which received 11.7 percent, then Japan and Iran which received similar shares of 8.6 percent. The most significant development is in the geographical distribution of exports and re-exports to Iran, whose share has declined from 16.7 percent in 1987 to 8.6 percent in 1988, while the significance of exports and re-exports to G.C.C. states grew by 19 percent during 1987.

The total value of U.A.E. imports has continued its ascending trend which started in 1987, reaching Dh. 31.3 billion in 1988, an increase by 18 percent compared to the year before, and approaching the levels recorded in the early eighties, which were followed by successive decreases over the period 1982-86. The increase has occurred in imports to Abu Dhabi, Dubai and Sharjah.

The values of Abu Dhabi and Dubai imports have increased by 20 percent, while Sharjah's imports increased, in value, by 4 percent, hence decreasing the share of the emirate of Sharjah in total U.A.E. imports. This general increase in value of imports may be attributed to several reasons including, most

importantly, the recovery of activities in non-oil investment opportunities, stability in the region, improved economic performance and re-building of the stock which in general declined over the past few years, besides the increasing demand for imports for the purposes of the re-export trade which grew by nearly Dh 1.0 billion in 1988, compared to 1987. The increase in value of imports may also be accounted for partly in terms of the slight depreciation of the U.A.E. dirham against currencies of major exporters to the U.A.E. (particularly Japan which ranks first among these countries).

Transit trade has also witnessed a remarkable recovery during 1988, increasing, in value, by nearly 43 percent compared to levels recorded in 1987. The bulk of this increase has occurred in the transit trade of the emirate of Abu Dhabi, whose value grew by 90 percent, while the value of transit trade through the emirate of Sharjah increased by only 10 percent. As the rate of increase in transit trade has exceeded the rate of increase in imports, the share of transit trade in total imports grew to 11.4 percent in 1988, compared to 9.4 percent in 1987.

The commodity classification of imports reflects a comprehensive increase in values of all commodity groups, except for the group of food and live animals whose value remained constant in 1988, and the groups of mineral fuels and lubricants and oils and fats, whose values dropped by 15 percent and 5 percent respectively during the same period (Table 6.15). The major increase in value of imports has occurred in capital goods, whose value grew by nearly 25 percent in 1988. Consumer goods recorded the second largest increase, followed by intermediate goods.

As Table 6.17 shows, the leading industrial countries annual share in the value of the U.A.E.'s total imports fluctuated between 65 and 70 percent during the period 1984-87. Among the leading industrial countries, Japan topped the list of exporters to the U.A.E., followed by the United Kingdom, the Federal Republic

of Germany, the U.S.A. and France in the fifth position.

**Table 6.17: Value of Imports by Regions and Countries
of Exports (%).**

Country	1984		1985		1986		1987	
	Value	%	Value	%	Value	%	Value	%
GCC	534.9	9.7	450.1	9.0	386.8	8.0	357	4.7
Bahrain	384.1	7.1	237.9	4.7	130.0	2.6	249	3.3
Saudi Arabia	62.1	1.1	128.5	2.5	187.7	3.8	44.0	0.5
Oman	5.3	0.09	7.8	0.1	6.8	0.1	4.0	0.05
Qatar	30.1	0.5	39.8	0.7	46.3	0.9	22	0.2
Kuwait	53.2	0.9	36.1	0.7	16.0	0.3	38	0.5
EEC	2757.7	51.0	2531.5	50.5	2620.5	54.5	3064	40.8
U.S.A	849.3	16.0	713.5	14.2	626.5	13.0	681	9.0
Japan	1258.5	23.2	1317.2	26.2	1184.0	24.5	1241	16.5
Rest of the World	1.3	0.02	1.3	0.02	1.5	0.03	2160.0	28.7
Grand Total	5401.7	100	5013.6	100	4819.3	100	7503	100

Source: G.C.C General Secretariat - Economic Bulletin Volume IV 1989.

6.7.4 U.A.E. Intra-Trade with G.C.C. Countries

The growth in U.A.E. trade with G.C.C. countries was largely attributable to the staged implementation of the Unified Economic Agreement among G.C.C. states and was further boosted by the relative stability in the region following the cease-fire in the Iran-Iraq war. The general improvement of economic conditions in the region besides the development and diversification of agricultural industries in G.C.C. countries may also be added as contributors to these recent developments.

Exports and re-export trade with G.C.C. countries grew by 19 percent in 1988, forming a sizeable portion of nearly 39 percent of the country's total exports and re-exports. This was attributable, on the one hand, to the improvement in

volume and quality of U.A.E. exports and to the substantial increase in U.A.E.'s re-export trade, on the other. It is noted here, that the U.A.E. has always been an active centre of re-export trade. This is mainly attributed to its strategic geographical location and the vast experience of local businessmen in the area of trade, besides accessible services, easy communications, smooth regulation and modern, well equipped ports.

U.A.E. imports from G.C.C. countries grew by Dh.1454 million in 1988 (Table 6.18), mainly due to developments in co-ordination and implementation of the Unified Economic Agreement between G.C.C. states, developments in the agricultural and industrial sectors in G.C.C. countries and the general state of stability in the region, following the cease-fire in the Iraq-Iran war in the second half of 1988. The increase has occurred in all groups with the exception of group-3 (mineral fuels, lubricants). Major imports of this group included petroleum products and residual materials, besides lubricating oils and asphalt. Meanwhile, imports of group 6 (manufactured goods classified by materials) grew by Dh.177 million. The most important imported items of this group included iron and steel bars, wire rods and sections, sanitary towels, insulation materials, canning containers, and building materials. Imports from the food and live animals group (0) have increased by Dh.101 million, most notably due to trade in cereals, fresh milk, dairy products, live animals and dates.

The value of imports of group 5 (chemicals) has increased by Dh.94 million. Imports of this group included paints and cleansing preparations. Group 6 imports (machinery and transport equipment) increased by Dh.53 million, with the most important items including cables, electrical wires and fridges. The value of imports of group 8 (miscellaneous manufactured articles) grew by Dh.26 million. Imports from this group included jewellery and precious metals.

As a result of these increases, the share of imports from G.C.C. coun-

tries in total U.A.E. imports grew from 4 percent in 1987 to about 5 percent in 1988. Imports from the group of mineral fuels and lubricants have constituted 64 percent of total U.A.E. imports from the G.C.C. countries in 1988, with the total value thereof reaching Dh.627 million. This figure, however, reflects a drop by 18 percent from the 1987 levels, a development which has resulted from an increase in domestic production of these materials in 1988 and is expected to continue as a trend over the coming years, considering on-going plans aimed at achieving self-sufficiency in this category of materials. The bulk of this group of imports originates from Bahrain which supplied 40 percent of the total U.A.E. imports of these materials in 1988, followed by Saudi Arabia (39 percent) and Kuwait (15 percent).

Manufactured goods classified by materials formed 20 percent of total U.A.E. imports from the G.C.C. states in 1988. The total value of this group of imports has increased by 157 percent, compared to 1987, amounting to nearly Dh.291 million. The U.A.E. received 48 percent of its total imports of this group from Saudi Arabia, while Qatar supplied 42 percent. Chemicals constituted 19 percent of total U.A.E. imports from G.C.C. member states. The total value of imports of this group reached about Dh.273 million. Some 83 percent of these imports originates from Saudi Arabia.

The rest of the groups form 18 percent of total U.A.E. imports from G.C.C. countries. The most significant of these groups are food and live animals, machinery and transport equipment, miscellaneous manufactured articles and crude materials, inedible except fuels.

U.A.E.'s non-oil exports to G.C.C. countries recorded a marked development in 1988, growing in value to Dh.577 million, against Dh, 514 million in 1987-an annual rate of 12 percent. Accordingly, exports to G.C.C. countries have come

Table 6.18: Distribution of U.A.E. Imports from G.C.C. States by Country of Origin. (1988)

Country	Value(in millions of Dh)	Relative Significance(%)
Saudi Arabia	806	55
Bahrain	290	20
Qatar	174	12
Kuwait	149	10
Oman	35	3
Total	1454	100

Source: U.A.E. Central Bank Bulletin - June 1989.

to constitute 30 percent of total U.A.E. non-oil exports in 1988.

Analysis of the commodity classification of exports originating from emirate of Dubai (which form 74 percent of total U.A.E. exports) shows that U.A.E. exports to G.C.C. countries were mainly concentrated in the following groups:- Group-6 (manufactured goods): The total value of exports of in group reached Dh.135 million, forming 32 percent of total U.A.E. exports to G.C.C. countries. The Sultanate of Oman ranked first among importers of U.A.E. exports in this group, with the value of exports to this country reaching Dh. 83 million, and Kuwait came second (Dh.20 million).

Group-3 (mineral fuels and lubricants): The value of exports of this group grew from Dh.60 million in 1987 to Dh. 62 million in 1988. Kuwait received the lion share of these exports (Dh.34 million), followed by Bahrain.

Group-5 (chemicals): Total value of exports of this group has increased from Dh.50 million in 1987 to Dh.54 million in 1988, forming 13 percent of total U.A.E. exports to G.C.C. countries. Exports in this group have included paints, detergents, soaps and fertilizers. Bahrain has received the bulk of these exports

(Dh.17 million), followed by Qatar (Dh.15 million) and Kuwait.

Group-0 (food and live animals): Whereas exports of most groups have increased in value in 1988, the value of exports of this group declined from Dh.61 million in 1987 to Dh.35 million. million. Exports to Saudi Arabia account for this decline, dropping in value from Dh.30 million in 1987 to Dh.10 million in 1988. Kuwait, however, ranks first among receivers of U.A.E. exports in this group, followed by Saudi Arabia. Group-7 (machinery and transport equipment):

The value of U.A.E. exports of this group grew to Dh.45 million in 1988, compared to Dh.26 million in 1987.

Group-1 (beverages and tobacco): The value of exports of this group has increased by 116 percent in 1988, reaching Dh.41 million, compared to Dh.18 million the previous year. The Sultanate of Oman received 73 percent of U.A.E. exports of this group to G.C.C. countries, amounting to Dh.30 million.

The geographical distribution of U.A.E. exports to G.C.C. countries shows that the Sultanate of Oman ranks first among major receivers of U.A.E. exports. The value of exports to Oman amounted to Dh.177 million in 1988, exceeding the 1987 level by 72 percent. Exports to Oman has accordingly formed 31 percent of total U.A.E. exports to G.C.C. countries. Kuwait ranks second, with the value of exports increasing from Dh.123 million in 1987 to about Dh.143 million in 1988 to form 25 percent of total U.A.E. exports to G.C.C. countries. Saudi Arabia ranks third, followed by Qatar and Bahrain.

U.A.E. re-export trade with G.C.C. countries grew by 22 percent in 1988, reaching a total value of Dh.3066 million. Re-exports to G.C.C. countries constitute nearly 41 percent of total U.A.E. re-exports and include all sorts of commodities. However, re-exports of five major groups may be considered the most significant, as they constitute 96 percent of total value of re-exported goods in

1988. Saudi Arabia is the major G.C.C. receiver of U.A.E. re-exports, accounting for 36 percent. In 1988, however, the value of U.A.E. re-exports to Saudi Arabia dropped to Dh.1090 million, mainly due to the decline in U.A.E. re-exported foodstuffs to Saudi Arabia. The most significant re-exported goods to Saudi Arabia include miscellaneous manufactured articles, manufactured goods classified by materials, foodstuffs, machinery and transport equipment. Qatar ranks second, receiving 32 percent of total U.A.E. re-exports to G.C.C. countries. The value of re-exports to Qatar increased to Dh.980 million in 1988 (up 40 percent, compared to 1987). Re-exported items to Qatar included foodstuffs , timber, iron and steel pipes, vehicles, and electrical bulbs. Kuwait followed next with the value of re-exports reaching Dh.506 million, to constitute 17 percent of total U.A.E. re-exports to G.C.C. countries. Re-exported goods to Kuwait included foodstuffs , miscellaneous manufactured articles and jewellery. Bahrain comes next with value of re-exports reaching Dh.378 million (13 percent of total re-exports to G.C.C. countries). Re-exports to Bahrain included transportation equipment, light aircraft, machinery spare parts, men and boys wear and foodstuffs. The Sultanate of Oman receives a relatively tiny share of about 2 percent of total U.A.E. re-exports to G.C.C. countries.

6.8 Migration in the G.C.C. Countries

Labour migration began in the early 1950s, soon after the oil discovery and the beginning of its extraction in the Arabian Peninsula and the Gulf area. The flow of this international economic migration increased during the late sixties and the early seventies.

However, the importance of the oil aspect of this region does not only consist in these high proportions, it consists particularly in the importance of investing these oil revenues, not only in the producing countries, but mainly in the advanced capitalist countries, especially the United States, Great Britain,

France and Switzerland.

According to the Economic Bulletin to the G.C.C. Council (1989) the non-national population in the G.C.C. Countries in 1986 was 35.6 percent. This percentage ranging from 2.6 percent in Saudi Arabia and 33.9 percent in Bahrain to 73.0 percent in Qatar and 74.0 percent in United Arab Emirates. This variation is due to the scale of migration in each country and to the facilities which each country gives to the immigrants, the date in which each country began to receive immigrants (especially in which period oil was discovered in each country) and the size and growth of the national population.

Table 6.19 shows that Saudi Arabia has had the largest absolute number of non-nationals since 1960, with its share of the GCC total increasing from 46.5 percent to 50.3 percent in 1980 (though it decreased to 41.8 percent in 1986). Kuwait came in second place, with a percentage share rising from 35.0 percent in 1960 to 38.0 percent in 1970, but it decreased to 19.3 percent in 1986. Oman and United Arab Emirates are the only two countries where the share of the total non-national population increased steadily from 1960 to 1986, because they are late comers in the development process, while the other countries have nearly completed their infrastructure and no longer need more unskilled workers.

During the 1960's the number of non-national population in the G.C.C. countries increased about 2.7 times; in the 1970's this increase was 3.7 times, and between 1980-86 it was 1.4 times. The high increase during the 1970's was due to the oil price boom and to high demand for labour in the G.C.C. countries. The labour market in the G.C.C. countries was characterized by its large scale and the high demand for labour (especially unskilled workers), with higher wages in the G.C.C. countries comparing with the original countries encouraging people to immigrate. The United Arab Emirates had an increase of non-national popula-

Table (6.19): Available Information on Stoks of Foreign Population in G.C.C. Countries (1960-1986)

Country	1960 ⁽¹⁾		1970 ⁽¹⁾		1975 ⁽¹⁾		1980 ⁽¹⁾		1986 ⁽²⁾	
	No.	Share	No.	Share	No.	Share	No.	Share	No.	Share
U.A.E	10.7	4.0	110.9	10.3	313.9	15.6	605.5	17.7	1239.2	22.4
Bahrain	26.8	6.8	37.9	3.5	62.8	3.1	104.4	2.7	139.6	2.5
Saudi Arabia	182.0	46.5	451.9	42.1	894.9	44.5	1977.0	50.3	2314.5	41.8
Oman	-	-	8.2	0.8	105.5	5.2	177.9	4.5	494.0	8.9
Qatar	30.1	7.7	67.1	6.3	101.5	5.0	167.3	4.3	284.2	5.1
Kuwait	136.8	35.0	397.5	38.0	533.3	26.5	806.8	20.5	1072.3	19.3
Total	391.4	100.0	1073.5	100.0	2011.9	100.0	3989.0	100.0	5543.8	100.0

Source:

(1) Carikei, 1987,p.8.

(2) ECWA. 1986

tion during the period 1960-1986 of 19.2 times, while the non-national population in Oman increased 60.2 times. The high percentages here are due to the fact that United Arab Emirates and Oman began their major development after there independence in 1970. Bahrain has the lowest level of non-national population increase during the period 1960-1986 (5.2 times) due to the small area of the country and to the small labour market in it.

6.8.1 Socio-Demographic Characteristics

There is a higher percentage of males than females in the Gulf, with around 60 percent of the region's total population being males. Most of the expatriates, especially the large number of unskilled labourers, are single men whose families do not accompany them during their stay in the region. The ratio of males in the total population differs from one country to another. It is as high as 68 percent in the UAE, 65 percent in Qatar, 60 percent in Saudi Arabia,

while it is lower in Kuwait and Oman, at around 57 percent. Nationals have a more balanced population structure, with the percentage of males close to the worldwide average of 50 percent. A common characteristic of high fertility rate is observed in the region, especially among nationals, leading to a high birth ratio and a very youthful age structure. The average number of children that would be born alive per woman in her lifetime ranges for nationals between 5.9 in Bahrain to 7.5 in Saudi Arabia, UAE and Oman. The average crude birth rate (number of live births per 1,000 persons) is over 40 in all the Gulf countries and the average crude death rate per 1,000 population is less than 7 in Kuwait, UAE, Bahrain and Qatar, around 15 in Saudi Arabia and 17 in Oman. The high fertility and declining mortality rates were responsible for the extremely high growth rate of the region's national population, averaging around 3.5 percent for the period 1975-1985 (Chapter Two).

High population growth among nationals has resulted in an age structure marked by extreme youthfulness. Almost 50 percent of the national population is believed to be under 15 years old and the percentage of those above 65 years is around 5 percent. Such a population structure leads to a high dependency ratio in the sense that the economically active population has to bear the burden of inactive persons which is twice as heavy as in most developed countries. The Gulf population is also highly urbanised. More than two-thirds of the total population lives in urban areas with much higher percentage (above 80 percent) for Kuwait, Qatar, UAE and Bahrain. The phenomenon of primate cities in the region is worth noting in this respect, with international migration adding to the cities' own demographic dynamics. Literacy rates for nationals have been on the rise in the various Gulf countries. In 1986, over 75 percent of national men were literate compared to around 55 percent for women. Female illiteracy rates have decreased considerably with the advance of education for girls in the various Gulf states (Chapter Two).

The economic participation rates for Gulf nationals is relatively low ranging between 27.5 percent for Bahrain and 18.1 percent for UAE'. Even male participation rates are lower than worldwide averages, reflecting the young age structure of the population, with more than 50 percent being too young to enter the modern workforce. The participation rates of national women, even though they have been on the rise with increased female education, are still at extremely low levels in certain Gulf countries. These were lowest in the UAE at 1.5 percent in 1986, and highest in Bahrain and Kuwait, 11.0 percent and 7.8 percent respectively.

The total size of labour force in the six G.C.C. states was estimated at around 5.5 million in 1986, 62 percent of which were believed to be expatriates.

Nationals predominate in the traditional sectors of the economy, namely agriculture and fishing, especially in Saudi Arabia and Oman, where close to 24 percent and 18 percent respectively of the national workforce are found. Mining is another important sector for nationals, as more of them move to occupy positions in the oil sector. The proportion of nationals engaged in the community and personal services sector has also been high, ranging from around 75 percent of the total national workforce in Kuwait and U.A.E. to 62 percent in Qatar, 44 percent in Bahrain and 32 percent in Saudi Arabia. This sector is especially important as it includes public sector jobs, where employment for nationals is almost guaranteed, and personal business where many nationals are self employed (e.g. drivers, guards, as well as private business). The concentration of expatriates is most evident in the manufacturing, construction and trade sectors. The majority of workers in manufacturing are non-nationals, the percentage is lowest in Bahrain, and Saudi Arabia (64 percent and 73 percent respectively), but highest in Kuwait (90 percent), UAE (91 percent) and Qatar (98 percent). The dependence on expatriates is even more pronounced in the construction sector, where it is estimated that in 1986 more than 85 percent of all construction workers in the Gulf were

expatriates. Non-nationals also constitute a majority in the trade sectors of the various Gulf states, reaching as high as 46 percent in the UAE and Qatar, 92 percent in Kuwait and 55 percent in Bahrain.

Nationals in Bahrain and Saudi Arabia have a more balanced distribution by economic sector than in the other Gulf states. The dominance of expatriates is apparent only in construction and to a lesser degree in manufacturing and trade. Nationals of the two countries constitute a majority in the mining sector (77 percent and 79 percent respectively), in the utilities sectors (68 percent and 70 percent respectively), in community and personal sectors (54 percent and 55 percent respectively), and 67 percent and 60 percent respectively in the transport and communication sectors.

Considering the economically active population by occupation, the Gulf countries' national labour force has been concentrated in three main occupational categories: Clerical workers, services workers, and production workers. The lowest percentage of nationals is found in such occupational categories as "management workers", "professional and technical workers" and, with the exception of Saudi Arabia and Oman, in "agricultural workers". The high percentage of clerical workers, which ranged from 27.6 percent of total national workforce in Kuwait to 23.3 percent in the UAE, 21.6 percent in Bahrain, 22.3 percent in Qatar and 8.8 percent in Saudi Arabia, reflects the expansion of the government sector giving priority to the recruitment of nationals. There has been a noticeable rise in the percentage of nationals working in professional occupations over the period 1975-1985. The percentage has also been higher for nationals working in managerial, services and sales occupations reflecting a maturing occupational structure of the Gulf labour force.

6.8.2 Changing Demographic and Labour Trends

The slowdown in Gulf countries' economic activities in the last few years has had a noticeable impact on the number, skill composition and salaries of expatriates living in the region. With the completion of major infrastructural projects many companies, especially construction firms, have cut staff and reduced salaries and employees benefits. Others have started replacing Western expatriates by the normally less expensive employees from the Middle East and Asia.

There are indications of changing immigration trends to the Gulf countries in the last three years (1985-1988). A large number of unskilled and semi-skilled construction workers, mainly from Asia have left the region. Other groups that have been vulnerable to the current economic slowdown are Arab expatriates and above all civil servants. These are precisely the kinds of positions to which the Gulf region's youth themselves aspire and where the nationalization of jobs is most visible. One of the chief objectives of Saudi Arabia's fourth 5-year plan, for example, is the reduction of the expatriate labour force by 600,000 workers, with their positions being filled by nationals.

The trend of replacing Americans and Europeans by equally qualified but less expensive Arabs and Asians is believed to have continued as well. A lot of Western companies resorted to sending to the Gulf more employees from their subsidiaries abroad, such as India, Pakistan and South East Asia, as these tend to accept lower remuneration packages. The culture and religion of Arab expatriates are similar to those of the Gulf and they consider the region to be less of a hardship area than do expatriates from Europe and the United States.

Even in the lower skilled jobs, workers from certain nationalities who are willing to accept a lower pay scale. For example, Korean construction workers were replaced by Indians, Pakistanis and Bangladeshis, and Filipino house helpers by Sri Lankans.

There has been a change in the distribution of the non-national population by age group and sex over the last ten years. Table 6.20 shows a distribution heavily weighted in favour of males in the working age group 15-64 years, as many expatriates workers especially the unskilled tend to leave their families behind during their stay in the Gulf.

Table (6.20): Distribution on Non-nationals by Age Group and Sex in the Six G.C.C. Countries (%)

Age Group	1975			1980			1985		
	Male	Female	T	Male	Female	T	Male	Female	T
0-14	17.7	14.8	31.5	10.9	9.4	20.3	16.4	14.3	30.5
15-64	49.9	17.3	67.2	62.0	15.1	77.1	48.2	19.1	67.3
65 and above	0.6	0.7	1.3	1.4	1.2	2.6	1.1	0.9	2.2
Total	67.2	32.8	100.0	74.3	25.7	100.0	65.7	34.3	100

Source: Gulf Economic and Financial Report - A monthly publication of Gulf International Bank - Issue No.5 May 1988. Vol.111

What is noticeable, however, is the rising percentage of migrant workers dependents in the last few years. As more unskilled workers leave the region, the pool of transient labour among expatriates is becoming smaller. Those planning to stay in the Gulf for more than two years are inclined to bring their families with them. Labour market trends point to the continuation of the process of demographic settling in the region. While in 1980, around 25 percent of non-nationals in the G.C.C. countries were females and nearly 20 percent were aged less than 15 years, in 1985 more dependents (wives and children) of expatriate workers appear to have settled in the region. Nearly 30 percent of non-nationals were less than 15 years old and over 34 percent were females.

The North American, European and to a lesser extent the non-national

Arabs are the most balanced communities in terms of age structure and sex. The profiles of these communities reflect either a longer duration of residence than in the case of the Arab expatriates (around 80 percent of non-national Arabs stay in the region for more than two years), or the extent to which recently arrived Europeans and Americans, normally assigned to managerial and technical positions, bring their families with them. However, women of these categories tend to be present as dependents rather than members of the work force. In the case of Asian expatriates, nearly 80 percent of the total are males with the majority in the age group 15-35. Some 30 percent of South East Asian females are economically active, mainly as nurses or housekeepers.

Another feature of the changing labour market structure is the general decline in the wage levels and remuneration packages that the expatriates can expect. Today, the Gulf region is an employer, rather than an employee's market. Living conditions are considerably better than a few years ago, and the need to pay substantially high wages to attract workers is no longer present. The situation has led several labour exporting countries to lower the recommended minimum wage of their workers. For example, by the end of 1986 Pakistan announced a 15 percent wage cut for nationals working in the region so that the minimum wage for its unskilled labour is now close to \$140 a month. Other labour exporting countries (Egypt, India, Bangladesh, Shri Lanka, etc.), invariably followed suit.

According to a random sample compiled by the Saudi Gazette, salaries for selected expatriate positions in the Kingdom have fallen by up to 50 percent in the last three years. The largest drop in monthly salaries was reported for general office workers, construction workers, plumbers, messengers, drivers and general low skilled labourers. However, salaries for certain highly skilled jobs have actually increased during the last three years. There has been a steadily growing need for specialists in computers, finance, banking, utilities operations

and many other specialities required in the up-market industrial, services and operations and maintenance sectors.

6.8.3 Mobilising Gulf Human Resources

The national development plans of the various Gulf countries and the corresponding annual budgets have accorded investment in education and training a high priority. Saudi Arabia alone has invested more than \$32 billion in technical education and vocational training during the First, Second and Third Development Plans (1970-1985) and the other GCC countries have spent between them at least as much. The Kingdom's Fourth Plan (1986-1990) envisages a total outlay of SR 35 billion (\$9.30 billion) to be allocated to vocational training and youth welfare. However, a major constraint to these programmes remains in the realm of motivation. The discipline and pace of the industrial and modern services sector differ from the experience that nationals acquired in the more relaxed work environment of the public sector. The willingness and ability of the indigenous population to adapt to the more stringent work condition is a key determinant to how fast the region will be able to reduce its dependence on expatriate labour.

Enrollment in vocational training centres has been on the rise in the various Gulf countries. In 1986, around 19,500 students were enrolled in vocational schools in Saudi Arabia, up from 9,000 in 1983 and 7,000 in 1980. The Kingdom's Fourth Development Plan estimated the total number of enrollments in the vocational programmes during the plan period 1985-1990 at 58,200. In Kuwait and Bahrain the number of students in vocational schools have also been on the rise, reaching in 1986 around 7,100 and 9,800 respectively, and the same applies to the other Gulf countries.

With the spread of education and vocational training, new attitudes are developing whereby increasingly more nationals are seeking employment opportu-

nities in the productive sector of the economy. This trend is further fostered by the high incomes that certain technical and blue collar jobs command compared to clerical jobs in the public sector. Apart from expanding vocational and technical training, developing new and more realistic attitudes towards remuneration and employment opportunities available and maximising job opportunities for nationals, there is a need to implement a programme of mandatory on-the-job training by expatriates. There are close to two million skilled expatriates in the six Gulf states; this is more than the total number of instructors in the secondary and higher education levels by at least fifty to one. The potential to harness expatriate 'know-how' should be available to policy makers. Various institutions could be obliged to make provisions for on-the-job training of the national employees to be certified upon completion. Fulfilment of this obligation could be monitored by governments and tied to future public sector contracts or partially subsidised for the additional cost incurred.

6.8.4 KUWAIT

6.8.4.1 Introduction

It has already been observed that the rapid growth in expenditures designed to accelerate the economic development of countries in the region has been associated with high levels of migration of workers from abroad. However, migration has made a great contribution to the rapid social and economic development of Kuwait.

The economic boom and accelerated developmental programmes of Kuwait in recent years have created a job market that native Kuwait's have been unable to fill. Owing to the inadequacy of local human resources, the majority of jobs have been filled by importing workers from other countries. Thus, in the course

of the past decade, Kuwait has become one of the countries of the world where immigration has facilitated rapid economic growth and it has become a major source of concern for the Government because of its wider social, economic and political implications. There, it is important to make an analysis of the magnitude, composition and characteristics of international migration, as well as its changes over time in order to understand the demographic dynamics of Kuwait and to formulate immigration policies.

6.8.4.2 Levels and Trends of Migration

Kuwait's economic activities have lone supported significant migrant population. The extent of international migration in Kuwait can be seen from the data presented in Table 6.21, which shows the number of non-nationals and proportion of non-nationals in the total.

Table (6.21): Population Growth by Nationality, 1957-1986.

Year of census	Population			Incremental growth rate			Percentage of Kuwaitis i the total population
				(per year	per 100 persons)		
1957	113622	92851	206473	-	-	-	55.0
1961	161909	159712	321621	8.7	13.7	11.1	50.3
1965	220059	247280	467339	8.1	11.8	10.0	47.1
1970	347396	391266	738662	9.6	9.6	9.6	47.0
1975	472088	522749	994837	6.3	6.0	6.1	47.5
1980	565613	792339	1,357452	3.7	8.7	6.4	41.7
1985	681288	1,016013	1,697301	3.8	5.1	4.6	40.1

Source: Population Bulletin of ESCWA Number 32. June 1988

Kuwait's foreign population increased from 92,851 persons in 1957 to 522,749 in 1975 and 1.016.013 million in 1985. This represents an elevenfold increase

in a 28 year period. Foreign population, which comprised 45.0 percent of total population in 1957, had increased to 53 percent by 1985. The rapid economic growth and diversification of the economy after 1975 resulted in an accelerated increase in the total number of foreign workers. Between 1975 and 1985 the total number of foreign workers increased from 212, 738 to 543, 944 (256 percent), while the total foreign population increased from 522, 749 to 1,016,013 (194 percent). Consequently, the proportion of foreign population in the total increased from 53 percent in 1975 to 60 percent in 1985, while for the labour force, the proportion of foreign workers rose from 69.8 to 81.1 percent. Thus, most of Kuwaiti's population increase is now generated by the foreign migration that has come in response to the country's rapid and successful economic development and modernization.

6.8.4.3 Age-Sex Pattern of Migrants

In Kuwait, as is generally the case, the first international immigrants were predominately male. For instance, over 78 percent of the immigrant population in 1957 were males. Between 1957 and 1975, however, the number of non-Kuwaiti females arriving in Kuwait rose sharply. While there were only 274 non-Kuwait women per 1,000 non-Kuwaiti males in 1957, the number rose to 374 in 1961, 423 in 1965, 601 in 1970 and 702 in 1975. Nevertheless, males dominated the non-Kuwaiti population, with a male to female ratio of about three to two. Associated with this increase in non-Kuwaiti women was an increase in the number of young children. By 1975, 16.6 percent of the non-Kuwaiti population was under the age of five, compared with less than 9 percent in 1957. There appears to have been a trend towards adjusting the age-sex balance by means of family migration during the period 1965-1975. Between 1975 and 1985, the ratio of females to males decreased to 597 non-Kuwaiti women per 1,000 non-Kuwaiti males in 1980, before increasing to 622 in 1985. The imbalance in the sexes among immigrants was more acute in the 25-29 age group, where there were two to three males for

every female. The reversal in the trend of sex ratios that was unfavourable to females after 1975 may be explained by measures taken by the Government to discourage the immigration of dependants.

In 1985, the age group 15-64 comprised over 70 percent of the total non-Kuwaiti population, while the proportion of those under 15 and 65 years of age and over reached only 28.9 and 0.6 percent respectively. Also, there was a heavy concentration of non-nationals in the economically - active age groups, which are made up of immigrants between 20 and 39 years of age. For example, the proportion of non-nationals to nationals was 46.0 percent, as compared with 26.6 percent in 1975. The selective age-sex distribution of recent immigrants has altered the age-sex structure of the total non-national population in Kuwait. Males in the age group 15-64, who formed about 64 percent of the total male migrant population in 1975, exceeded 70 percent in 1985. At the same time, the proportion of children under 15 years of age declined significantly from 39.7 percent in 1975 to 28.9 percent in 1985, while the overall sex ratio for non-nationals decreased from 142 males per 100 females in 1975 to 161 in 1985. Such imbalances in the age-sex structure can have serious consequences for many of the significant life activities of the population.

6.8.4.4 Ethnic Composition and Origin of Immigrants

There has been a significant shift in the composition of the influx of immigrants by country of origin since 1975 (see Table 6.22). In 1975, about 80 percent of the total immigrant population came from Arab countries, and nearly 19 percent came from Asian countries. Within the Arab group, the largest community was that of Jordanians/Palestinians, who at that time comprised 39 percent of all non-Kuwaitis. The combined Egyptian, Iraq, Syrian and Lebanese communities accounted for approximately 33 percent, while Indians and Pakistanis together formed nearly 66 percent of the total non-Kuwaiti population.

Table (6.22): Composition of The Non-Kuwaiti Population by Nationality Group. 1975-1985.

Nationality group	1975		1980		1985	
	Number	%	Number	%	Number	%
Arabs	419,187	80.2	574,495	72.5	642,814	63.2
Asians	97,813	18.7	204,104	25.8	355,974	35.0
Africans	440	0.1	1,601	0.2	2,039	0.2
Europeans	4,280	0.8	9,984	1.3	11,908	1.1
Americans	814	0.2	1,997	0.2	3,142	0.3
Others	47	-	158	-	163	-
Not stated	168	-	-	-	-	-
Total	522,749	100.0	792,339	100.0	1,016,013	100.0

Source:

- (1) Population Bulletin of ESCWA. Number 32, June 1988
- (2) Kuwait, Central Statistical Office, Population census of 1987.

The most striking change since 1975 has been the large increase in people of various Asian nationalities, who formed 18.7 percent of the non-Kuwaiti population in 1975 and 35 percent in 1985. Consequently, the ratio of Arab nationalities fell from 80.2 percent to 63.2 percent during that 10 year period. Further, it can be noted that the number of immigrants from the Far East, namely Philippine, Korean and Sri-Lanka nationals, increased significantly during the last decade. One of the reasons for this shift was the rapid increase in the rate of development after 1975, which found the traditional Arab labour exporting countries increasingly unable to send more workers abroad. Thus, the shortage of available Arab labour on the one hand, together with the abundant supply of skilled and cost-efficient Asian labour on the other, forced Kuwait to bring an increasing number of immigrant labourers from the Far East and Indian sub-continent.

6.8.4.5 Employment and Educational Characteristics of Immigrant Labour

Expatriates dominate all sectors of economic activity at all occupational levels. In 1985, Kuwaiti nationals accounted for only 18.9 percent of the total work-force. Rapid economic growth and the diversification of the economy resulted in an accelerated increase in Kuwait's labour force between 1975 and 1985. During this period, the native labour force increased from 91,844 to 126,410, while the non-Kuwaiti work force rose from 212,738 to 543,944 representing percentage increases of 38 and 156 respectively. At the same time, the share of nationals in the total number of persons employed declined from 30.2 percent in 1975 to 18.9 percent in 1985. This decline in the proportion of employed Kuwaitis was largely owing to the low participation of Kuwaiti women in the work-force and to the failure of Kuwaiti nationals adequately to meet the demand for skilled labour.

The position of the immigrant work-force is further enhanced by the fact that their activity rates are higher than those of the national population. In 1985, the crude activity rate for migrants was 53.5 percent, in comparison with 18.6 percent for nationals. This disparity was apparent in both sexes. The male activity rates for Kuwaitis and non-Kuwaitis were 30.0 and 69.7 percent respectively. It is interesting to note that the participation rate of non-Kuwaiti women was nearly four times that of Kuwaiti women. The major reason for the very low participation of Kuwaiti women in the labour force is a social one: traditional society in Kuwait restricts women from participating in the modern economy.

Besides the small size and young age of the national population, one of the major reasons for Kuwait's dependence on a foreign labour force is the low educational attainment of the Kuwaiti labour force. In spite of the huge expansion of educational resources in the last two decades, the quality and quantity of education is still low in Kuwait. In 1985 approximately one quarter of the native

labour force was either illiterate or had no formal education. Some 13.2 percent of the Kuwaiti labour force successfully completed primary school, while 24.9 percent completed intermediate school, 24.4 percent completed secondary school, and only about 12 percent had university degrees.

Table(6.23): Percentage Distribution of the Labour Force According to Educational Attainment, 1985.

Educational attainment	Kuwaiti			Non-Kuwaiti		
	Male	Female	Total	Male	Female	Total
Illiterate	17.0	2.5	14.2	24.8	24.4	24.7
Basic literacy	12.6	1.9	10.5	26.4	33.1	27.7
Elementary school	15.3	4.4	13.2	7.7	2.6	6.7
Intermediate school	25.8	21.1	24.9	11.2	4.3	9.8
Secondary and post-secondary	19.5	44.8	24.4	18.1	21.7	18.8
University	9.8	25.3	12.8	11.8	13.9	12.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Population Bulletin of ESCWA. Number 32, June 1988.

Table 6.23 shows that Kuwait has a critical shortage of high level manpower. This is illustrated by a comparison of the number of migrants (65,809) and Kuwaitis (15,793) who have university degrees. Thus, the number of foreigners with university degrees was more than four times that for the native population, while as holders of secondary school certificate, foreigners outnumbered Kuwaitis more than three to one. At the same time Table 6.23 shows that the bulk of the foreign labour force (nearly 52 percent) had no formal education.

It may be noted that the level of education of the female labour force was much higher than that of the male labour force for both Kuwaitis and non-Kuwaitis. A high proportion of Kuwaiti females had completed primary, interme-

diates and secondary school. If the social barriers that restrict the full participation of women were to be removed, Kuwaiti women could fill many of the jobs that currently suffer from a shortage of national manpower (Al-Essa 1981).

In 1985, the largest single area of economic activity for both Kuwaitis and non-Kuwaitis was community and personal services. As employment in the government sector is attractive, Kuwaitis tended to cluster in social and community services, where they constituted over 75 percent of the work-force. In contrast, only 43 percent of non-nationals worked for the Government. A relatively high proportion of non-nationals were employed in the construction, trading and manufacturing sectors. Although non-nationals predominated in all sectors of the economy, their employment was almost absolute in construction (98.8 percent), trading (92.0 percent) and manufacturing (90.8 percent). It is evident from Table 6.24 that most of the economy would not survive without the presence of a foreign work-force.

The distribution of employment by sex showed that over 90 percent of active non-Kuwaiti females worked in the services sector. For males, however, nearly one third (32 percent) were employed in services, 28 percent in construction, 15 percent in trade, hotels and restaurants, and 10 percent in manufacturing industries. An analysis of economic activity by nationality shows that Arabs and Asians were concentrated in the services and construction sectors, while Westerners were concentrated in mining and quarrying.

The occupational structure of the national and non-national work-forces shows a very different pattern. Nearly one-third of all indigenous workers were engaged in service occupations. An additional 28 percent were employed in clerical-related occupations and another 21 percent in professional and technical occupations. In contrast, a relatively large proportion of active non-nationals were

Table (6.24): Distribution of the Economically - Active Population by Sex and Major Industrial Groups, 1985.

Economic activity	Kuwaiti			Non-Kuwaiti			% of Non-Kuwaiti
	Male	Female	Total	Male	Female	Total	
Agriculture, hunting							
and fishing	2.8	0.3	2.3	2.2	-	1.8	78.0
Mining and							
quarrying	2.5	0.2	2.0	1.0	0.3	0.8	64.3
Manufacturing industries	4.6	0.6	3.8	10.4	1.1	8.6	90.8
Electricity, gas							
and water	1.5	0.2	1.3	1.4	-	1.1	79.1
Construction	1.4	0.1	1.2	28.0	1.1	22.8	98.8
Trade, hotels							
and restaurants	6.0	0.6	4.9	15.3	3.2	13.0	92.0
Transport, storage							
and communications	6.9	3.5	6.2	6.5	1.2	5.5	79.4
Financial, investment							
and insurance	3.2	2.8	3.1	3.2	2.5	3.0	81.0
Community and							
other services	71.1	91.7	75.2	32.0	90.6	43.4	71.6

Source: Population Bulletin of ESCWA. No.32, June 1988.

employed in production-related work (40 percent) and services (28 percent). However, both these groups cover a wide range of skill levels. Of all Kuwaitis who worked as professionals in 1985, almost one quarter were employed in jobs that generally required a science or mathematics -based university degree.

About 37 percent of all Kuwaitis worked in unskilled occupations that required no special education or training, and about three and half times more

Kuwaitis were engaged in skilled and semi-skilled occupations involving office and clerical work than in skilled and semi-skilled manual occupations. About 15 per cent of all active Kuwaitis were engaged in sub-professional and technical occupations, while nearly two thirds (66 percent) were teachers.

Among non-Kuwaitis, nearly 70 percent of those engaged in professional occupations were in jobs that usually required a science or mathematics degree. Approximately two thirds of the expatriates engaged in skilled and semi-skilled occupations were in manual jobs, while only one third were in occupations related to office and clerical work. About 39 percent of non-nationals were engaged in unskilled occupations. Only about 10 percent of active non-Kuwaitis were engaged in sub-professional and technical occupations, 46 percent were teachers. In contrast, non-Kuwaitis were relatively under-represented in administrative, clerical and teaching occupations, presumably because nationals were available in large number for jobs that required less education and training. Non-Kuwaitis were also over-represented in the categories of skilled and semi-skilled manual occupations, which shows the relative level of the skills of migrant labour.

Clearly, two categories of migrants can be distinguished. First is the bulk of migrants with few or no skills, who work primarily in the private sector, construction, manufacturing and domestic services. The second category of migrants is composed of skilled and professional workers who work for both government and private employers.

6.8.4.6 Development and Immigration Policy

Migration has undoubtedly made a great contribution to the rapid social and economic development of Kuwait. However, it has also given rise to a number of social and political problems, including the fear of numerical and cultural domination and an overdependence on expatriate labour. While the Government has

not adopted an official population policy, policy makers accorded high priority to the population issue in the Third Five-Year Development Plan 1985-1990. The major policy concern of the Government is to achieve a balance between the size of the national and expatriate populations by the year 2000, or earlier, by reducing the role of the foreign work-force in the development process. In an attempt to achieve these objectives, the following approaches have been adopted:

- (a) The reduction of mortality and maintenance of high fertility rates in order to achieve a high rate of natural increase and reduce the country's dependence on immigrants.
- (b) A reduction in the rate of growth of the foreign population by controlling the flow of migration into the country in the following ways: requiring the rational use of expatriate immigration, mechanizing the development and reconstruction of services, utilizing advanced technology and scaling down projects that are labour-intensive and make no substantial contribution to development.

Recent measures adopted by the Government concerning immigration include the following:

- (i) Stricter regulations on the immigration of family members.
- (ii) A preference for contractors who bring their own workers and who do not encourage workers to settle in the country.
- (iii) Stricter control of clandestine immigrants.
- (iv) Amendments limiting the validity of residence and work permits of non-nationals to two years.
- (c) A rationale for the utilization of the national labour force and its development.
- (d) The intensification of efforts to develop the national labour force and upgrade their skills through educational and training programmes that respond to the country's development needs.

- (e) Encouraging the female population to join the labour force, especially in those areas of activity that fit in with the prevailing tradition of the Arab world.
- (f) The encouragement of investment in labour-abundant Arab States and the integration of product and labour markets through international trade.

In conclusion, one of the most striking population features of Kuwait was the high rate of foreign migration, which came in response to rapid and successful economic development and modernization. In spite of this high rate of migration, there was an acute shortage of qualified manpower in many crucial sectors during the late 1970's and early 1980's. To some extent this was alleviated by migrants from outside the country.

Although the period of the oil boom has now ended, the tasks of diversifying and consolidating the economic base and maintaining a high rate of economic growth still remain. A number of development projects have to be completed and services have to be maintained. These objectives cannot easily be achieved without a regular flow of workers from outside the country.

Therefore, international migration will continue to play a significant role in the foreseeable future by filling the gap between the demand and supply of manpower. Workers, however, may increasingly come from Asia rather than from the Middle East.

6.9 Cooperation in Trade and Migration Sector

6.9.1 Trade :

Cooperation in the area of commerce first focused, following Articles 1-7 of the EA, on the removal of intra-GCC trade barriers and the adoption of a CET. This was a logical and necessary starting point for the GCC states, as intra-

GCC trade was negligible and, therefore, would not bring large-scale commercial interest into conflict. Also, a CET would among other things serve to insulate the emerging industries in the GCC. A unified trade position would also do much to assist the GCC in its task of negotiating access to foreign markets for export by its member states.

All intra-GCC customs duties on animals, agricultural products, natural resources, or manufactured goods of member state origin were eliminated in principle on 1 March 1983, in accordance with Article 1 of the EA. It is highly instructive, though, that even in this first stage of economic integration between the GCC states, the flexibility built into the EA was tested. Oman, owing to its economic circumstances, opted to advance reservations on specific commodities under Article 24 of the agreement, under which "any member state may temporarily exempt itself from applying such provisions as may be necessitated by temporary local situations in that state or specific circumstances faced by it". In the remainder of the GCC, however, compliance to the free trade provisions was relatively uniform soon after the 1 March deadline had passed.

Agreement was also reached on a number of secondary measures designed to strengthen the trade provisions of the EA, such as the establishment of common border customs stations, the creation of customs institutes in the member states, and a central customs data bank at the GCC Secretariate General. Moreover, the member states reached consensus on a certificate of origin in order to ensure the viability of intra-GCC trade, which entailed the exchange of specimens of official customs stamps and signature of authorized custom personnel.

The process of adopting a CET was also more gradual than expected, though the delay in implementation reflected the considerable administrative and other adjustments that were necessary in each of the member states. In accordance with the resolution of the Ministerial Council on 18 May 1983, a CET of 4-20

percent was to become effective on 1st September 1983. Yet by the target date, only Bahrain and Kuwait had changed their customs system to conform with the ruling, presumably because their duty levies were in adherence with those established by the GCC. Oman, Qatar, and Saudi Arabia required additional time to take the necessary administrative steps. The UAE encountered more fundamental obstacles; various parts of the commercial community feared that the CET would further aggravate their already difficult economic circumstances. All seven emirates, however, formally adopted the CET by the time of the fourth Supreme Council meeting in Doha on 6 November 1983. As of 1988, however, there are still areas of noncompliance to the CET provisions of the EA, most particularly in the domain of the ceiling of tariffs on luxury items. At the seventh session of the Supreme Council in Abu Dhabi, the GCC heads of state agreed that the remaining unification of customs duties and procedures regarding all foreign goods would be achieved in a period of two years. Specific mention of that decision was made in the economic declaration issued at the Supreme Council's eighth session, together with a reaffirmation of the importance attached by the GCC leaders to such unification.

Another important landmark in the GCC economic integration process was the decision of the ministers of economy and finance on 11-12 October 1983 to allow GCC individuals and other business entities the right to market products throughout the GCC area. Also resolved was the right of GCC nationals to engage in hotel, restaurant, maintenance, pharmaceutical, and craftsman activities, subject to licensing and other host country regulations. These resolutions, which were subsequently reaffirmed by the Ministerial Council and approved by the Supreme Council, are gradually being brought into effect in the member states through the adoption of relevant national legislation or decree.

The GCC has also been the forum in which the member states have

determined collective positions in negotiations with external elements. The EA contains explicit language in this respect: "member states shall coordinate their commercial policies and relations with other states and regional economic groupings and blocs with a view toward creating balanced trade relations and favorable circumstances and terms of trade therewith".

Discussion of potential negotiating positions has included measures and strategies designed to protect local industries, such as cement, iron and steel, asbestos, and aluminum enterprises. The GCC ministers of commerce agreed during their meetings on 1-2 May 1984 and 6-7 November 1984 to establish a technical committee in order to assess the benefit of specific protectionist measures in these areas. Though neither protectionist tariffs nor any other nontariff trade barriers have yet been imposed, the GCC constitutes an important avenue through which such measures could be taken if necessary.

Moreover, the member states have agreed to designate the GCC as their representative in certain trade negotiations with third parties. Such representation by the GCC is provided for in the EA, Article 7 of which states that the GCC states will "conclude economic agreements collectively when and if the common benefit of the member states is realised" and "work for the creation of a collective negotiating force to strengthen their negotiating position vis-a-vis foreign parties in the field of importation of basic needs and exportation of major products". The GCC has been engaged in trade discussions with the EEC, Japan, and the USA with the objective of opening new markets for the petrochemical and other exports of its member states. There is the hope in the GCC that free trade areas will eventually be established with each of the industrial markets mentioned.

What GCC trade negotiator Mahmoud al-Khourdi has referred to as "substantial progress" has been achieved in negotiations with the EEC since discussion began in October 1984, though many hurdles remain to be overcome. The

process of agreeing on a trade structure was all but derailed in June 1984, however, when the EEC decided to impose a 13.5 percent tariff on Saudi methanol exports. The situation was further complicated in 1986, when the EEC expanded its trade barriers to include some additional GCC petrochemical exports. By the end of 1987, negotiations with the EEC were apparently at a virtual standstill, though a new set of proposals was anticipated to be considered by the parties. In order to accelerate the process of negotiation, the Supreme Council, in its Riyadh meeting in 1987, instructed the Ministerial Council to carry out "official negotiations" on behalf of the GCC with the EEC.

The GCC negotiations with the EEC are vital not only because of the size and importance of the EEC markets but also because the GCC views the European initiative as a vehicle with which it can open relations with the USA market. Al-Khourdi is of the opinion that once a trade arrangement with the EEC is in place, the USA "will be induced to move into a new phase" of negotiation with the GCC.

But, as with the EEC, it cannot be expected that USA policymakers will facilitate the introduction of large-scale imports from the GCC, particularly in view of difficulties associated with the chronic USA trade deficit and growing protectionist tendencies. Questions regarding the state ownership of GCC enterprise are likely to be another element that will complicate the development of a structured GCC-USA trade relationship. There is also the additional problem of broader political obstacles involving the Arab-Israeli conflict that could also arise in the context of GCC-USA trade negotiations. In light of these constraints, discussions, are likely to continue to focus on dispute settlement procedures, exchange of data, investment (i.e. GCC investment in USA energy industries), more general energy policies and issues, and more contentious matters relating to the Arab boycott and the USA anti-boycott legislation. In spite of these probable dif-

facilities, the GCC hopes to capitalise on "an arrangement in which USA interests are also served" based on discussions not "exposed to non-relevant factors".

The GCC is also engaged in discussions with Japan, which in the 1980's has become a major trade force in the GCC states. The Japanese position in the region is vividly demonstrated by the fact that it eclipsed the USA as Saudi Arabia's chief trade partner in 1986. Because the level of Japanese investment is lower than those of Europe and the USA, talks have focused on increasing Japanese direct investment in the GCC area. Another area of discussion between the states is the potential in Japan for the imposition of duties and taxes on crude oil and gasoline imports. That potential sparked the Supreme Council during its Riyadh meeting in 1987 to "express its concern" over the "protectionist policies which Japan intends to apply".

Especially in light of the economic contraction that has gripped the region in the 1980's, the GCC states are less inclined to accept the continuation of large-scale importing without some measure of reciprocity by foreign states. This attitude is already prevalent in the national economic policies of most of the GCC states. The initial obstacles encountered by the GCC states in exporting products to the European, USA, and Japanese markets may be a precursor of more profound friction in trade matters unless some resolution is reached. Without doubt, trade negotiations will continue to be high on the GCC's list of economic priorities.

The GCC has also sought to enhance its trading position through the establishment of arbitration rules had been drafted for the commercial cooperation committee. The rules would serve as the basis for the GCC's current focus of setting up an office at the GCC Secretariat General for the purpose of commercial arbitration.

The advantages associated with bulk purchases of imports by the GCC

states are obvious, and efforts have focused on trade arrangements providing for GCC-wide purchase of staples such as rice, sugar, and wheat. Depending on the initial results of such efforts, a GCC-wide approach could be adopted in a number of other economic fields (such as financing). The development of a collective position was set out in explicit terms in the Unified Industrial Development Strategy, in which the member states pledge "to adopt a collective international industrial policy based on encouraging their exports, and to consider adding new terms to foreign aid and trade agreements... to promote their industrial exports". The strategy also calls for the coordination between the GCC states on "loan agreement terms offered by foreign and international financial establishments as well as supplier facilities agreements" and "management and marketing contracts concluded with foreign companies".

As might be anticipated, because of the regional economic contraction and the small size of intra-GCC commerce in general, the data indicate that, despite the imposition of a free trade area and a CET, the percentage of trade between the GCC states has remained constant or decreased on the whole after the GCC was established. In this regard, it would be implausible to identify the degree of inter-GCC trade as an index of the success of the overall GCC programme, for two principal reasons. First is the extent to which revenues dropped together with the price of oil. Also, the economic measures that in the states have been identified but not yet implemented. Therefore, additional time is necessary before intra-GCC trade levels assume greater importance in assessments of GCC economic performance.

6.9.2 Labour

The March 1985 statement on Objectives and Policies of Development Plans in the GCC States provides a number of goals for development in the GCC

region. Predictably, the statement calls for enhanced educational opportunities, better health standards, better work conditions, and augmented economic opportunities. Likewise, the statement calls for the correction of "the population imbalance, whereby the proportion of aliens in the GCC states is reduced and their presence is confined to what the state determines is consistent with economic necessities". These are the two principal avenues of the labour programme under the GCC framework.

The GCC ministers of labour have also met regularly to explore the mechanics of providing equal treatment for GCC nationals in fulfillment of the various provisions of the EA. The decision to make such treatment available to all nationals was formally made by the ministers during their third meeting in Riyadh, culminating a process of standardizing terms of reference and structures that had begun a year earlier. The ministers have also recommended the formation of an organisation designed to study how unified GCC labour laws can be reached and have sought to intensify ongoing professional and vocational programmes between the GCC states.

6.10 Summary

The countries of the Gulf have long been affected by flows of goods and people so the creation of the GCC might be expected to have a significant impact on these movements. In relation to trade, changes in the size and nature of the Gulf markets in recent years have had important consequences for foreign suppliers. Shifts have taken place in the balance between demand for capital and intermediate goods and demand for finished consumer goods, largely as a result of industrialization. With the completion of the massive infrastructural schemes of the 1970s, the demand for construction-related items has declined. Most new projects, with a few notable exceptions, are on a much smaller scale.

At the same time, however, demand is growing for replacement items, because of the need to maintain the new industries and basic infrastructure. Since such items are required for existing projects, rather than new schemes, issues such as compatibility have become much more crucial. A further change has involved the methods of conducting business, especially now that price is no longer a secondary consideration to the quality of the specification. The Gulf market today is far more competitive than it used to be.

Despite the changes brought about by the recession in the Gulf, the economies of the region are still quite open to trade and have a few import restrictions either in the form of tariffs or quotas. Export earnings comfortably covered all import payments during the last decade, and although there are some balance of payments pressures due to the drop in oil prices, there is a reluctance to restrict imports through the imposition of controls. Gulf openness to trade has deep-seated cultural roots, as well as being necessitated by the nature of the region's resource base. For example, there is no need for protection to safeguard employment as labour shortages are still the major constraints for development.

Diversification away from the dependence on exports of a single commodity will be of prime significance in the region's development strategy. The Gulf countries will continue to look to their traditional trading partners to provide them with the necessary imports and technological knowhow. However, the scope for sustaining, let alone expanding exports to the GCC region, will be governed to a large extent by the trading partner openness to processed Gulf goods. This is more of an issue to the EEC which has been following a protectionist policy against GCC petrochemical products. While EEC exports enter the GCC countries at very low custom duties, and in many cases duty free, the community imposes tariffs on petrochemical exports from the Gulf once the relatively low duty free amounts are exceeded (which normally happens in the first weeks or

months of any particular year).

The bearish outlook for the world oil market in the coming years does not promise a major resurgence of oil revenues. The Gulf countries need therefore to maintain their policy of import substitution and economic diversification. The growth in imports will continue to be restrained and more emphasis will be put on maintenance and the efficient utilization of resources. Protective tariffs selectively provided for locally- produced commodities may be needed together with other incentives to encourage domestic investments. The rise in exports of petrochemical products, aluminium and natural gas among others may offset to a large extent the drop in oil revenues. The region is expected to maintain its historic trade surplus, albeit with some deterioration in the respective countries of export-import ratios.

The deficit in the balance of invisibles and transfers will have to shrink further to firmly place the region's current account deficit on a declining trend. Invisibles credit, representing mainly the income from foreign investments, are forecast to fall in line with the running down of foreign assets. However, this could, to a large extent, be offset by the decline in invisibles, debit-services and workers remittances. These are expected to assume a downward trend, now that major contracts have been completed and the demand for foreign labour is on the decline. The combined deficit in the current account position of the six Gulf states is not expected to widen much in the coming few years and it could very well start to shrink. Accordingly, the drawdown on foreign reserves may continue, albeit at much lower rates than seen before.

As has already been indicated, trade between countries in the GCC region is very limited in scope, and involves mostly the re-export of goods imported from abroad (Table 6.18). The reason is simple: the countries are basically very similar; they extract and export their reserves of oil wealth and import almost everything else. Hence the possibility of trade within the region, other than that

involving re-exports, depends on the development of domestic industries. While it is likely that such trade has increased in recent years as the national economies have become somewhat more diversified, it remains the case that trade with the rest of the world overwhelmingly dominates trade within the region.

Within the regional ring, efforts need to be directed towards intensifying the mobility of goods, capital and people. The multiplicity of different local currencies complicates trade and investment within the region. A single currency area might foster the expected increase in intra-regional trade and investment. A GCC Payments Union should be considered as a means to strengthen the institutional mechanisms accommodating regional economic interactions.

The other major flow affecting the region is that of migration. The Gulf region's over-dependence on expatriate workers has been due mainly to the dramatic growth in the region's economy over the past two decades, the small size of the indigenous population and the lack of sufficient managerial, technical and operational skills needed in the current development stage. The potential domestic supply of labour is also reduced by cultural traditions that discourage higher participation of the female population in the labour force. Furthermore, there are certain types of manual jobs that nationals prefer not to perform, either because they are socially unacceptable or the pay levels are too low. Non-nationals are now employed in almost every sector and in most Gulf countries they comprise the majority of the labour force.

Although government officials in the various Gulf countries have given a great deal of emphasis to the importance of hiring nationals, the process of nationalizing the labour force has not been extended to the private sector at large. Aside from certain clerical jobs (messengers, drivers, government relation officer, etc.) the employment of nationals in the private sectors has been rather limited. In Kuwait for example, figures for 1989 show that the government remained the

main employer of Kuwaiti manpower, accounting for about 92.7 percent of the national labour force with only 7.3 percent working in the private sector. In Bahrain, while 50 percent of the economically active population are non-national, the dependence of private industrial companies on expatriates reaches 90 percent. In Saudi Arabia, it is estimated that only 9.5 percent of the Saudi labour force is gainfully employed by the private sector.

The main and most common complaint of private sector industrialists is that, even disregarding problems of attracting nationals to technical posts, the costs involved are so high as to be prohibitive. They claim that the average cost of hiring and training a national graduate of a technical school is much higher than of employing a trained expatriate workers. Many private sector employers who are guided by the principle of maximizing profits and minimizing costs are resigned to continued dependence on imported labour until nationals acquire more skills and adjust their wage expectations.

Originally, the expatriate workforce in the Gulf was envisaged as a temporary phenomenon, with the bulk expected to leave following the completion of the region's infrastructure. However, the recent changes in immigration trends and labour- market structure have lengthened the average duration of stay of the non-nationals with the bulk becoming perpetual residents.

The decline in economic activity in the past few years limited the need for additional migrant workers, but there has been no mass exodus of expatriates. The GCC states have found themselves hosts to a more settled non-nationals population where many expatriate workers are joined by their dependents and increasingly more non-nationals are born in the region. Policy makers were surprised by the pervasiveness and capacity of migrant workers to remain in residence and to adapt to the new working environment where remunerations are generally lower than in the boom years of the 1970s and early 1980s. The GCC governments

are only now appreciating the true cost of providing health and social services for a large immigrant community with close to 20 percent of their annual oil revenues being remitted abroad by expatriates working in the Gulf countries.

The economic slowdown experienced in the region and the ongoing process of modernization has engendered a gradual transformation of attitudes and aspirations on the part of the national population towards technical and blue collar jobs. Nowhere is this more obvious than in Bahrain, where a sizeable percentage of the labour force is found in the manufacturing sector, working mainly for the government- owned companies and in certain occupations that were considered less socially acceptable in the past. This contradicts the conventional view that GCC nationals will not work in manual and industrial occupations. In other Gulf states, however, attitudes have not yet changed to the same extent. Nationals do not generally seek employment opportunities in the industrial sectors, preferring instead the less physically demanding and usually better paying opportunities in the fields of commerce, trade and government. Besides, the presence of migrant workers makes certain occupations socially unattractive, especially where the pay levels are too low. Certain policies will have to be implemented to make manual and technical jobs more attractive to the indigenous workforce and to encourage private sector enterprises to employ more nationals. This is especially the case in Saudi Arabia, Bahrain and Oman where unemployment among the youth started to surface and may become more visible in the 1990s.

The challenge ahead lies in the ability of the national workforce to develop and acquire those skills needed in the current development stage. Young men and women should try to benefit from the skills of their expatriate counterparts and strive to acquire the needed expertise that would help them take over more senior responsibilities in the future.

The pre-occupation with growth-related investment, industrialisation and

economic diversification should not be given priority over development-related human resources issues. Furthermore, the pressing need to accommodate demands for more highly skilled national manpower should not lead in the process to the negligence of the region's culture and values. This in effect calls for the implementation of population and manpower policies aimed at harnessing the region's indigenous human resources and fostering values of hard work, discipline, acceptance of change and professionalism consistent with the fabric of the Gulf culture.

CHAPTER SEVEN

CONCLUSION

7.1 A Review of Progress

It can be argued that the emergence of the Gulf Cooperation Council has had a variety of effects on the development of the economies of its member states. In 1981 the six Gulf countries, Kuwait, Bahrain, UAE, Qatar, Oman and Saudi Arabia, agreed to establish a new entity among themselves and called it the Gulf Cooperation Council. Although the overall aims of the Council are too diverse to be considered in great detail in the present research, the economic integration strategies adopted by the Council and their potential implications on the agricultural, industrial, services and trade sectors have been examined in depth.

The importance of the study is defined in chapter one, where it was argued that the Council could serve as the medium for achieving a higher degree of coordination, integration and cohesion in all fields and for forging closer links between its members in various spheres. Through the GCC, the member states have taken deliberate and substantive steps toward the realization of a free trade area and a customs union, and are taking those further steps necessary to make the GCC into one solid economic entity on the basis of long-term institutionalized cooperation.

Hence, a descriptive analysis was introduced in the second part of the research. The Gulf region is very rich in oil resources, and its geographical location makes it an international artery for petroleum wealth. The six states, if considered individually, represent only a small area, but taken together, they cover a relatively large sized territory which can support an integrated economic structure.

The agriculture sector has grown relatively in recent years and the GCC countries have mounted an ambitious campaign to improve their agricultural sector which so far has played a limited role in the region's economy. It has been found in the third chapter that the contribution of the sector to GDP is still very low, ranging from 4 percent in Oman to less than 0.04 percent in Qatar. The reason for such a marginal role includes deficiencies in the soil, scarcity of irrigation water, climatic conditions of the desert (including low annual rainfall) and the limited supply of manpower trained in agriculture. Despite these limitations, efforts are now being intensified to improve agricultural performance and cultivate a new image for the agricultural sectors. A recent study (1988), by the Federation of Gulf Chamber of Commerce, Industry and Agriculture warns of a serious shortage of food in the Gulf region if no immediate measures are taken to achieve self-sufficiency. The study recommends reclamation of additional land, encouragement and incentives to the private sector, increased use of advanced scientific methods to deal with the region's harsh climate, and establishment of local fertilizer and insecticide industries. The study expects that by the end of the century, the countries of the region would have achieved, as a group, self-sufficiency in wheat, maize, poultry and other various agricultural and dairy products. The GCC common agricultural policy (Appendix. B) makes explicit reference to the ultimate aim of GCC activity in this regard - namely, the agricultural integration of the GCC states on the basis of reciprocal and balanced benefits to the cooperating parties. In addition, the policy seeks to maximize resources, secure the greatest possible degree of self-sufficiency (particularly in basic food commodities).

These factors underline the explicit reference of food security in Article 7 of the Economic Agreement, which stipulates that the member states will make arrangements to coordinate policies for building up strategic food stocks. Measures under the aegis of the GCC to provide a measure of regional food security, therefore, have been a focus of GCC activity. The GCC ministers of agriculture,

during their 1983 meeting agreed to examine options regarding the food security issue. Among other things, they recommended that agriculture be given priority in regional investment decisions and resolved to continue the national efforts to development food production capabilities.

As a consequence of the nature of the GCC's economies, where oil and natural gas are widely available, the industrial sector has received greater attention than the agricultural sector, and contributed more to the GDP. Moreover, Article 13 highlights the need for the member states to play special attention to the establishment of joint ventures in industry. Many of the specifics of these more general objectives were articulated in the more recent industrial development strategy, the GCC Unified Industrial Development Strategy, adopted by the member states in 1985 (Appendix. C). The importance of the harmonizing and codifying regulations relating to industry was echoed by the GCC ministers of industry during their first meeting in Riyadh in 1980. In order to establish a common base for such a codification process, however, action to standardize the various measures and procedures in the GCC industries was necessary. The GCC has agreed to the establishment of a range of common institutions aimed at positive integration. Among these institutions is the Gulf Investment Corporation (GIC), established by the Supreme Council during its meeting in Doha in 1982. Capitalized initially at U.S.\$2.1 billion, owned equally by the GCC member states, and controlled by a board of directors consisting of two representatives from each GCC country, the Kuwait-based GIC seeks to identify feasible projects, evaluate them, structure them and participate with the public and private sector in bringing them to fruition. Rather than constituting a loan-syndication or soft-loan institution, it is in effect a commercial financial institution aimed at promoting development of the productive sectors in the GCC economies. The GIC has reached an advanced stage of commitment with five projects, including the modernization of aluminium Bahrain, the expansion of the production

facilities of the Gulf Aluminium Rolling Mill Company, and equity participation in the establishment of the Jubail based National Wire Drawing and Products Company, together with the National Industrialization Company of Saudi Arabia and partners from Europe. In the future, the GIC could be an effective vehicle for economic diversification in the GCC arena, as well as for other cooperative efforts, such as a unified GCC stock exchange. In terms of economic cooperation then, the GIC represents an important component of positive GCC integration by virtue of its centralized planning and implementation character and the size of its capitalization.

The GCC has also institutionalized its cooperation in the area of standardization and measures. The necessity of unifying standards, measures, and procedures to the gradual development of an integrated regional economy. At the Doha meeting of the Supreme Council in 1982, the GCC leaders approved the transformation of the existing Saudi Arabian Standards Organization into the Gulf Standards and Measures Organization (GSMO). At that time, work began on the respective systems of standardization in the GCC member states, which numbered 460 in Saudi Arabia, 250 in Kuwait, 100 in Oman, and some 50 in Bahrain, Qatar and the UAE. GSMO operations have been conducted from SASO headquarters in Riyadh with SASO staff and facilities, though it is hoped that a GSMO organization independent from SASO will emerge in the next five years. Such a process implies a greater financial commitment by the GCC to the organization, as the GSMO's 1987 financial budget was limited to approximately U.S.\$850,000. The accomplishments of GSMO since its inception include the agreement among the GCC member states to 53 standards on items ranging from systems of measurement and calibration, foodstuffs, canned food labels, common electrical appliances, performance of motor vehicles, and environmental production.

The Unified Economic Agreement also calls on the member states to cooperate in the provision of services. This issue had been examined in chapter five, where it has been found that the importance of the efforts toward integration of the financial systems was stressed by the GCC leaders in the economic declaration issued after the eighth Supreme Council. This blessed the efforts toward the adoption of a fixed common index of the GCC currencies as an important step within the framework of coordination of financial and monetary policies and the realization of a Gulf common market. In 1988, the GCC ministers of transport and communication approved a proposal to establish an executive committee of civil aviation directors. The committee has since agreed to a new inter-Gulf flight schedule and the unification of airline ticket structure. In terms of electricity and water, a parallel effort has led to the standardization of electricity and water rates.

Cooperation in education has been frequently cited as a major goal of the Council. However, it is interesting to note that the first meeting ever of the GCC ministers of education was not held until September 1985. At the conclusion of their meeting, the GCC Minister of Education adopted the following general policies regarding education:-

1. Teaching is a specialized vocation, and only those who are highly qualified should be employed in it.

2. Illiteracy must be completely eradicated from the GCC states.

3. Higher education at university level must be Arabized in all of its disciplines and branches.

4. Citizenship, obedience, and the ability to defend one's homeland should also be nurtured through military education schools.

Cooperation in trade and migration has been discussed in chapter six, where it has been found that the intra-GCC customs duties on animals, agricultural products, natural resources, or manufactured goods of member states origin were eliminated in principle and in practice on 1st March 1983, in accordance

with Article 1 of the EA. Agreement was also reached on a number of secondary measures designed to strengthen the trade provisions of the EA, such as the establishment of common border customs stations, the creation of customs institutes in the member states, and a central customs data bank at the GCC Secretariat General. Moreover, the member states reached a consensus on a certificate of origin in order to ensure the viability of intra-GCC trade, which entailed the exchange of specimens of official customs stamps and signatures of authorised custom personnel.

Regarding migration, the GCC ministers of labour have met regularly to explore the mechanics of providing equal treatment for GCC nationals in fulfillment of the various provisions of the EA. The decision to make such treatment available to all nationals was formally made by the ministers in 1985. The ministers have also recommended the formation of an organization designed to study how unified GCC labour laws can be reached and have sought to intensify ongoing professional and vocational programmes between the GCC states.

In the field of political coordination and defence cooperation the GCC has achieved little, compared with the economic field, therefore, the GCC will have to work harder to achieve its goals in the political and defence field.

Finally, if economic adjustment to lower oil revenues and the uncertainties created by the Gulf war were the main constraints to growth in the 1980s, economic diversification and generating productive employment opportunities to a growing population are the challenges of the 1990s. With the end of the war and a gradual surge in the world's demand for oil, the Gulf region is positioned to experience a decade of renewed economic growth. The return of confidence to the Gulf market will translate into expansionary business and investment plans. Higher population growth in the six Gulf states will continue in the 1990s, albeit at slower rates than before, which together with an increase in the percentage of those in the age group

15 and above and a more settled expatriate population should boost demand for real estate, housing, social services and consumer products.

Development priorities of the forthcoming decade have already been identified. In short, these include mobilizing private sector resources, economic diversification and creating jobs for the growing number of young Gulf nationals coming into the labour market from universities and school. The role of the governments in directing the economies of the region remains, but the private sector will be called upon to build on the foundations laid by previous , as will as future public sector expenditures. A lot of emphasis is put on nationalization of employment opportunities, especially in the private sector. However, demand for certain skills will exceed indigenous supply for many years to come and expatriates will continue to have a clear role to play in 1990s. The critical obstacle to increasing employment of Gulf nationals in certain occupational categories remains the mismatch between educational qualifications and skill requirements.

7.2 Evaluation

The actual effect of these cooperation activities on the economic development of the GCC states has been limited. For example, the implementation of most provisions of the Unified Economic Agreement has varied between extremely slow and nonexistent. Businessmen in different GCC countries have yet to feel the impact of the Unified Economic Agreement, particularly in regard to the exemption of national products from tariffs. Similarly, no coordination has actually occurred regarding expatriate labour, either. Yet all economic studies, long-term and short-term, have pointed to expatriate labour as the major issue facing the Gulf states over the next two decades. Certainly, there is a growing gap between the expectations created in the early years of the Council and the economic achievements apparent to ordinary citizens. Several of the reasons for

these have been established during the sectoral studies and they can be brought together in an overall evaluation of the contribution of the GCC to the economic development of the region. Some of the reasons are specific to the Gulf but others appear to be features of supranational organisations in general. To highlight the latter before discussing the specific reasons for the limited success of the GCC, we should look at the experience of the EEC as a supranational organisation and the lessons that GCC could possibly learn from the EEC experience.

7.2.1 Lessons from the European Community

By 1992, Europe is expected to turn into a unified market of the 320 million consumers, 350 if EFTA (the six European Free Trade Association countries of Austria, Finland, Norway, Iceland, Sweden and Switzerland) is included, a market which is larger than the US (246 million people) and Japan (122 million). A free market of this size with a purchasing power slightly larger than that of the US and 1.5 times that of Japan will be a dynamic entity for intra-European, as well as global growth. Some estimates suggest that the formation of the EC in 1957 added 2 to 4 percentage points of growth to the world's total during the 1960s.

A custom union (elimination of internal custom tariffs and the introduction of common external tariffs for third countries) had already been completed 20 years ago. Since its foundation in 1958, this custom union helped raise intra-EC trade from 37 percent to 58 percent in 1987. The EC has enlarged its membership from six to twelve and the European Monetary System (EMS), which has been in existence for almost ten years now, helps dampen fluctuations in the exchange rates of the European currencies. Despite these achievements in European economic integration, there are still 12 segmented markets of insufficient size, with trade flows hindered by non-tariff barriers and flows of labour and capital across

boundaries not completely free. The goal of 1992 is to create a common market similar to the one existing in the USA. This means that trade in goods and services and the movement of labour and capital would be just as free between the EC members as it is in one state.

The impact on economic growth in Europe and world-wide is projected to be considerable. The EC commission estimates a potential for additional growth in the community's GDP of 5 percent over a period of some five years after 1992, generating economic gains of around \$250 billion and creating two to five million new jobs. Furthermore, intra-EC trade is expected to increase after 1992 through a comprehensive programme which includes removing frontier controls to the movement of goods and people, adopting common standards for industrial products, harmonizing rates of value added tax and freeing the movement of capital and the provision of financial services.

For the business sector, the opening of European markets will provide the advantage of lower unit costs of production as markets are supplied with uniform products. Unit cost of distribution will drop when border controls are abolished and European companies will enjoy a larger domestic market than their American and Japanese competitors. The biggest single markets in the EC, Germany with some 70 million people, France and Britain with about 55 million each, are relatively small compared to the domestic market of Japan and the US.

The impact on non-EC countries is equally important. The steps towards a common market by 1992 will help consolidate Europe's position as the world's single largest trading bloc. The EC is both the world's largest exporter and its biggest importer. It accounts for just over 25 percent of world trade or 40 percent if intra-EC trade is included. Therefore, the expected growth stimulus from the single market will immediately spread world-wide. However, the impact of a single market on non-EC countries will depend on the Community's future trade policies.

The expansion of intra-regional trade may lead to the strengthening of external EC trade barriers, effectively offsetting the increase in imports generated by higher European growth prospects. There is also the possibility that the EC may give special consideration to certain industries considered sensitive (e.g. automotive, textiles, petrochemicals and electronic industries) when the Community is going through a critical period of re-organization.

In the financial sphere, the establishment of a single EC market by 1992, would allow all EC credit institutions to offer cross-border services throughout the Community. Moreover, branching out will be greatly facilitated. The Treaty of Rome, upon which the EC was founded, did provide for freedom of establishment (to set up branches and subsidiaries) in banking throughout the Community, but it did not provide banks with the ability to sell services across national frontiers. This deficiency was addressed in the second Banking Directive of January 1988. In essence, this introduced the concept of the " Single Banking Licence " whereby a subsidiary of a bank licenced to operate within any EC country will, by 1992, be free to operate within all member states under the rules prevailing in its home country. Furthermore, it now appears that the securities business will be included in the core business of commercial banks. The international competitiveness among the leading financial centres will intensify owing to these developments. This suggests some erosion of the London based Euro-markets after 1992, in so far as European borrowers or security issuers who presently choose London to raise money may find it equally efficient to use their liberalized domestic markets.

Non-EC financial institutions represented by a subsidiary in any one of the 12 EC member countries will also benefit from the single banking market after 1992. In this context many non-EC firms who would like to enter the Community market place to benefit from equal treatment and equal opportunities are coming to the conclusion that they should establish a presence now. To benefit from

the right of establishment, a non-EC company must meet two conditions. First, there should be complete reciprocity from the home state to all EC members, and second it must have its registered office, its central administration or its principal place of business within the Community.

Various comments from EC officials suggest that the principle of reciprocity will be strongly adhered to. Prospective new entrants, whether by establishment or acquisition, will be permitted to enter an EC country only if reciprocal rights exist in their country for the banks of all EC countries. In other words, if an institution from one EC country is refused a licence by a non-EC state, all EC countries will refuse new licences to institutions from that country. Furthermore, reciprocity if strictly applied would essentially allow a firm from a non-EC country to undertake only those activities in the EC markets that EC firms can undertake in the foreign country.

The relative success of the EC compared to the GCC, is largely because the EC has adopted long-term plans, through which member states could define the most important economic and social goals, allowing scope and freedom of public participation in public affairs, and freeing economic policies from undue political considerations. The best example of an indicator of integration that captures this in coordinated action is the number of people involved in the EC policy-making machinery. The civil servants employed by the Commission and other EC institutions have rapidly increased in number: with the Commission staff growing from 1000 to 15000 between 1960 and 1988. (In the same period the total number of civil servants in the countries of the EC 12 rose from 4 to 8 million persons). The meeting of the Council of Ministers, its working parties, and experts of the Commission also have become more and more frequent. New lobbying groups were regularly established, and older ones have increased their efforts to influence European policy and decision making by extending their mem-

bership and consolidating their presence in the centre of EC decision-making (Molle,1990). In other words , the European countries have a democratic approach to supranational planning, which means there is no decision to be taken without the approval of the parliament in each country of the EC and the European Parliament. While in the GCC countries there is no democracy, that means the people do not have the right to participate in any decision. I consider that this is one of the main reasons for the failure of the GCC's approach to integration. In my opinion, without the participation of the people in the decisions, the GCC will never achieve its goals. Therefore, I am strongly recommending that the GCC move towards the decision-making structures of the EC (while aware that these too have limitations).

7.2.2 Specific Features of GCC

Regarding to the specific reasons, the first two reflect the internal and external organisation of the GCC states and the other three indicate a failure of the GCC to tackle issues that are vital to long-term development.

Bureaucracy and Development: People responsible for the management of the development process must have the ability to shape policy and define goals; initiate and innovate; face major situations; effect change ; change administratively; make informed and objective decisions competently and effectively. In fact, the management of the development process in the GCC states lacks the ability to do most, if not all, of the above internally, let alone in international collaboration. Furthermore, to achieve a truly cooperative development programme, several conditions must be implied : the will to develop; clearly defined goals and policies; a competent administration; a qualified and adequately trained workforce; genuine political support; and a productive economic base.

Again, the researcher argues, the conditions do not seem to exist in the GCC states. Development in the oil states seems to involve the importing of the superficialities of civilization from the developed countries - tall buildings, big cars, and technological luxuries for amusement. It also seems that policy - makers in the Gulf states are primarily concerned with the economic aspects of development; the social and administrative aspects of development occupy a much lower level in thinking. Political development is nonexistent. What some see happening in the Gulf is not development but growth of a certain sort.

Effective planning is almost completely lacking in the oil-producing countries, even in those countries that profess to have development plans. Gulf states lack a clear social and economic vision that can be translated into specific national or cooperative goals and objectives. The states must accept the efficacy of comprehensive planning in all of its aspects, economic, administrative, political, and social. For proper management of development also, they must coordinate their planning efforts through the GCC mechanisms. Coordination in this area is the first step to break the cycle of economic dependency. Indeed, many examples of coordination existed in the Gulf prior to the establishment of the GCC, yet economic dependency continued to prevail.

The GCC might play a better role in the achievement of regional coordination in development if the question of long-term development is given top priority. First and foremost, a regional development plan must be established for the six GCC states. Secondly, in the context of this plan, a regional population policy must be adopted, to be followed by regional education and training manpower plans. Basically, comprehensive planning in the GCC should include the following areas : oil production; investment of oil revenues; industrialisation; education; training; manpower; and agriculture.

Bureaucracy in the Gulf states has expanded tremendously but has failed

to produce modern state institutions. Two factors have contributed to this growth : the lack of a meaningful plan, and the abundance of oil revenues. Compared with the public services of more developed countries, Gulf bureaucracies suffer from certain disabilities, both structural and behavioural. Gulf bureaucracies remain tribal in nature. That is, they attempt to solve current problems using a tribal approach. Bureaucracies in the Gulf states expanded rapidly in the late 1960s and early 1970s without any specific plans and without any real administrative reform. In addition, bureaucracies in the Gulf states contain a relatively high percentage of uneducated or poorly educated government employees, both indigenous and expatriate. In terms of higher education, a large percentage of university degree holders in the bureaucracy are expatriates. The administrative reform in government bureaucracies in GCC countries has been disappointing for several reasons : the inability of foreign experts to understand the political realities in these countries; the tendency to emulate models based on the developed countries; the inability of responsible government agencies to introduce reform; the bureaucratic opposition to administrative reform; administrative reform programmes lack political support; a weak feeling of institutional belonging on the part of government employees; the social educational environment; and bureaucratic corruption.

Without an effort to improve the internal administration of the countries, GCC cooperation plans will remain ineffective.

International Division: The Arab world in general may be renowned for its fractured communities and divided loyalties, but it is the small states of the Arabian Gulf which best epitomise it. This may in part be due to the more overtly tribal and kinship orientated nature of their politics and of their society; it may also owe much to the difficulties of establishing common goals, aims and loyalties, even though these states are much smaller than their cousins elsewhere in the region. This " international division " is problematic for the GCC on

two levels. First, it makes the forging of closer internal coordination much more difficult. Second, it encourages external states, especially those with strategic interests in the region, to exploit these internal divisions by playing off members against one another, and indeed, within member states, by exploiting factional tension. Ultimately the presence of such a fractured political culture makes the development of a more coherent, integrated body extremely difficult to attain.

For all the publicity associated with high level GCC meetings, diplomatic coordination among the six appears to be spasmodic. A good example of this was the issue of formal diplomatic relations with Moscow, the six resuming ties with the Soviet Union in a piecemeal fashion over the course of a number of years.

One of the central reasons for the establishment of the GCC was to enable the six member states, which tend to be small and relatively weak by regional standards, to assume a stature to which they could not aspire individually. The GCC as a multilateral body offered the promise of diplomatic and military economies of scale. Yet it is remarkable in retrospect how little the six have acted as a corporate body on the diplomatic stage. The publication of periodic memoranda and conference communiqués appears to have been the end of it. The individual member states continued to be the main vehicles for the formulation and execution of foreign, as well as, economic policy. During the Iran-Iraq war the GCC would merely delegate diplomatic functions, such as assigning the UAE as the main conduit for dialogue with Iran. The approach helped to neutralise the diplomatic efficacy of membership of a regional organisation, while projecting an impression of its marginality. After the conflict ended in the ceasefire of August 1988, the GCC seemed to become even less important, either as a focus for its member states, or as a forum in which important multilateral decisions could be taken. For instance, Saudi Arabia chose to conclude a separate Non-Aggression Pact with Iraq in spring 1988, without reference to the GCC. Kuwait, which did

not have such an arrangement, was made more vulnerable in its relations with Iraq due to the absence of an overall GCC role. Another example, the latest dispute between Qatar and Bahrain over the shallow island of Fasht Dibal which flared up in May 1986, is only a recent example. The GCC itself proved unable to do anything about this dispute and it was left to Saudi mediation to shelve the problem. In this respect the GCC countries face a historical choice if this organisation has any future at all. Either they have to accept the borders drawn up by the British, and accepted by the countries concerned as their political boundaries on accession to independence, or they totally refuse to accept them, falling back on the old tribal system recognising no borders and accepting no imaginary lines drawn on sand. If ever this second choice is taken, the whole political map of Arabia will have to be redrawn. The GCC as we know it today would have to accept that change if it wants to remain viable as a regional organisation, (Pridham, B.1988).

Although the GCC has started to tackle the obvious features of economic cooperation, it is also clear that it has failed to even consider other aspects of long-term significance. The first of these is population.

Population and Development: First, in the Gulf states, population data are treated as a sensitive topic bordering on being a state secret. Accordingly, population estimates in these states vary, depending on the source, which makes planning impossible. Second, the indigenous labour is less than half of the total labour force. Third, the population in the Gulf countries increased enormously in the 1970s, primarily due to the influx of expatriate labour. Fourth, the nature of population and concomitant population policy are directly linked to development. Fifth, there is a serious population problem in the GCC states, quantitatively and qualitatively, which will have a far-reaching effect in all other aspects of these societies, including security and the quality of life in general. Sixth, no serious

population policy has been introduced either in the states themselves or through the GCC to address this problem.

A particularly serious problem centres on the absence of women's participation in the development process. Women constitute half of the population. Therefore, the talk about increasing citizen participation in the labour force remains hypocritical and meaningless unless the question of female participation in the labour force is addressed.

Education and Development: Education is, of course, at the heart of national policy regarding development, yet the GCC has made minimal impact in creating cooperation.

Education plays a crucial role in the Gulf countries, particularly because of the small population, the influx of expatriate labour, the lack of natural resources, other than oil, and the relatively new education system. Five specific educational objectives must be realised : providing a minimum level of education for all; nurturing intellectual independence and developing creative abilities; strengthening values and productive tendencies; linking secondary and university education to development requirements and the labour market; and developing scientific research and establishing a technological base.

The process of development requires a broad base of educated people. Massive efforts should be spent on expanding education, eliminating illiteracy, encouraging females to get more education, and preparing competent and committed teachers.

Education must also encourage productivity and the values of physical labour. However, there still exist in Gulf societies negative attitudes, based on tribal and clan status, which denigrate manual labour. The general treatment of

people is also affected by their social status and tribal origins. All Gulf societies suffer from these attitudes to some degree, a situation that will not change without a complete social and economic reform.

A revision of the educational curriculum, particularly in higher education, must be a top priority. Such a revision must aim at making the university responsive to the needs of development through preparing generations of productive, competent, and capable people. Second, Gulf states must revise their whole attitude toward college degrees and college graduates. Presently, Gulf states guarantee their college graduates a job in government regardless of qualifications, which has resulted in inflated national budgets and inefficient administration.

Any new curriculum must tighten course requirements, as well as admission requirements to universities. Professors must be expected to keep up with their disciplines, and students must be advised to go into the sciences, technological fields, and other professional areas. Most officials agree that the policymakers in the political system must lead the reform movement and supervise the implementation of reform.

The researcher attributes most of the educational problems in the Arab world, and in the Gulf states in particular, to the educational system itself. The fifth annual meeting of Naduat al-Tanmiya, held in Abu Dhabi in January 1984, started to address this issue.

Seven major problems were identified in educational administration : 1. weak administrative ability among school principals and assistant principals; 2. failure to provide a comfortable school environment that would allow for student participation; 3. authoritarian tendencies; 4. school administrators heavily influenced by government bureaucracies in other areas; 5. strong centralization in finance and in policy making even on the local school level; 6. decisions frequently

made without adequate studies of the potential results of such decisions; 7. a gap between declared goals and policies and the actual implementation of policy.

Another fact is that the teaching profession does not attract many people with strong abilities. High school students have cited several reasons for their lack of interest in a teaching career : low salaries, limited opportunity for promotion, limited incentives and a lack of respect by society. Therefore, the educational system should attempt to attain certain specific objectives : 1. To create an Arab individual capable of giving and receiving criticism and of handling problems. 2. To nurture love and respect for work and self-reliance and to encourage initiative, creativity, and a positive attitude toward labour and vocational training. 3. To reduce the general offering in the curriculum and to concentrate instead on Arabic and English languages and on the sciences and technological fields. 4. To strengthen citizenship education and the feeling of national belonging. 5. To develop an aptitude for thinking, meditation, and reflection rather than rote memory and regurgitation. 6. To encourage students to pursue self-education. 7. To provide an atmosphere of academic freedom that would allow for independent scholarly research and exchange of ideas without fear of retribution. 8. To encourage women to go into teaching, at least on the elementary level, in order to solve the manpower problem.

All these objectives should be addressed both by the states themselves and by the GCC collaborative machinery of future economic development is to be arrived.

Ineffective Defence Policy: We can see further evidence of the lack of cooperation in the case of defence policy.

The central question of the extent to which individual members or the corporate body should or did take responsibility for policy also manifested itself

in the defence sphere. As with economic policy and diplomacy, the six states of the GCC were unwilling to transfer the substance of defence from themselves to the organisation. Consequently, the GCC forces as such remained small in number, even by regional standards. Some states, notably Oman, only maintained a token presence in this force. Coordination over defence procurement, an obvious form of economic cooperation, only proceeded slowly. Limited commitment also existed in the areas of internal security and counter-intelligence. Differences also existed over the severity of punishments which should be meted out for crimes of subversion and sabotage.

The greatest failure of the GCC states will be regarded as the inability to stop Iraq from invading Kuwait. Of course, it was never intended that the defence economies of scale of the GCC would establish parity with states like Iraq in terms of military capability. However, in view of the vast sums spent on state of the art weapons procurement, the members should have possessed some deterrent capability. The external defence strategy appears to have been to hold up any invading force for long enough to permit the regional and international diplomatic machinery to come into play to limit any conflict. The military competence and political will necessary to execute such a strategy was always in doubt. The shortcomings of the latter were in evidence during the Iran-Iraq war, when the GCC as a whole refused to post its military force to Kuwait in the wake of the fall of Faw to the Iranians, despite the requests of the emirate. The Iraqi invasion of Kuwait showed, firstly, that there was no broader GCC commitment to the defence of an individual member. It indicated, secondly, that the Kuwaiti armed forces were unable to hold off the Iraqi for sufficiently long to enable diplomatic pressure to build on Baghdad to stop its invasion.

Finally, the Gulf Cooperation Council is a relatively young organisation, the first of its kind in the Arab world, but it faces major challenges. Once the

GCC is transformed into an organisation in which the Gulf citizen can nurture his aspirations for a life of dignity and economic prosperity, then it will become a major regional organisation, and it will endure for many years.

7.3 Suggestions for Further Consideration:-

Manpower Issues:-

(1) The pre-occupation with growth-related investment, industrialization and economic diversification should not be given priority over the development of the related human resources. Furthermore, the pressing need to accommodate demands for more highly skilled national manpower should not lead to the neglect of the region's culture and values. This in effect calls for the implementation of population and manpower planning policies aimed at harnessing the GCC's indigenous human resources and fostering values of hard work, discipline, acceptance of change and professionalism, consistent with the fabric of the Gulf culture.

(2) Gulf nationals should come to terms with the realities of the post-oil boom era and seek those job opportunities that are available in the market place. New entrants to the labour force should not set pre-conditions as to the type of job, working hours and salary demanded. Instead they should change their expectation, adapt to the more stringent work conditions of the private sector, be ready to work longer hours and accept salaries commensurate with their responsibilities and level of competence.

(3) A logical extension of this concept is the idea of corporate sponsored technical programmes in such fields as banking, computers, import - export, telecommunications, accounting and management among others. Such programmes would help eliminate the social stigma which vocational training has inherited and bridge the gap between academia and the corporate world. Re-

gional training centres in the whole of the GCC's would mobilise all resources and facilities within one area of technology or vocation and may provide a higher quality of training at lower cost to the corporations involved.

(4) Women are the Gulf countries' unutilized human reserve, capable of contributing to the processes of growth and development. If the region succeeds in tapping a large share of its female labour force, this could significantly increase the indigenous supply of labour, reduce to some extent the level of dependence on expatriate labour, save on social over-head costs of immigration and make the population more homogeneous. The fact that so many young women are getting education today at all levels from school to university, must result over the coming decade in a much larger female labour force participation, especially in certain public sector services (chapter two). The experience of Bahraini woman who constitute around 11 percent of the national labour force, is an indication of what could possibly develop in other Gulf states.

(5) Apart from expanding vocational and technical training, developing new and more realistic attitudes towards remunerations and employment opportunities available and maximising job opportunities for nationals, there is a need to implement a programme of mandatory on-the-job training by expatriates. The reserve of qualified non-nationals in the region to serve this function is enormous. The potential to harness expatriate 'know-how' is readily available to policy makers. Various institutions could be obliged to make provisions for on-the-job training of their national employees to be certified upon completion. Fulfillment of this obligation could be monitored by governments and tied to future public sector contracts or partially subsidised for the additional cost incurred.

Economic Restructuring:-

(1) The bearish outlook for the world oil market in the coming few years

does not promise a major resurgence of oil revenues. The Gulf countries need therefore to maintain their policy of import substitution and economic diversification. The growth in imports will continue to be restrained and more emphasis will be put on maintenance and the efficient utilization of resources. Protective tariffs selectively provided for locally produced commodities may be needed, together with other incentives to encourage domestic investments. The rise in exports of petrochemical products, aluminium and natural gas among others, may offset to a large extent the drop in oil revenues.

(2) It has become evident that for industrial strategy to succeed, it should take into consideration the need to develop manpower, services, financial and capital markets, engineering, maintenance, consultancy and research and development facilities. Only those projects that do not require long-term subsidies and protection to become commercially viable should be considered. A comprehensive strategic outlook for industrial development at both the national and regional level needs to be drawn up and implemented, encompassing such fundamental decisions as import substitution or export oriented industries. A sliding scale protective tariff formula directly proportional to the ratio of value added of an industry to total value needs to be implemented, with infant industries benefitting from higher tariff rates and for a specific period of time only. Industries applying for protection should adhere to certain levels of specifications and standards and be able to compete in price and quality in the local markets. High prices of industrial products could harm the consumers and dampen future export potentials.

(3) Furthermore, governments in the six GCC states could help tenders drawn out in such a way as to favour locally processed products and part of Gulf governments' foreign aid might be provided in kind, which will then consist of domestic industrial products. Trading companies should be encouraged to take charge of part of the marketing responsibilities, so far assumed by the industrial

units.

The Next Step

Progress toward greater GCC economic integration has been slow, but the six GCC countries are gradually moving towards common standards and regulations in areas ranging from customs and ship registration to banking and environmental protection. A common external tariff and free trade within the GCC are scheduled to be implemented by 1992. With these developments, a GCC common market could soon become a reality. Together, the G.C.C. countries have a population of more than 16 million (projected to reach 27 million in the year 2000) and a GDP of roughly \$150 billion, growing towards \$250 billion by the turn of the century. This will undoubtedly constitute the largest collective market outside the OECD and the Eastern European block that could provide the depth required for promoting industries in the region.

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APPENDIX . A

The States of United Arab Emirates

State of Bahrain

Kingdom of Saudi Arabia

Sultanate of Oman

State of Qatar

State of Kuwait

Being fully aware of their mutual bonds and special relations, common characteristics and similar systems founded on the Creed of Islam. Based on their faith in the common destiny and destination that link their peoples. In view of their desire to effect coordination, integration and cooperation among them in all fields. Based on their conviction that coordination, cooperation and integration among them serve the higher goals of the Arab nation. In order to strengthen their cooperation and reinforce their common links. In an endeavour to complement efforts already begun in all vital fields that concern their peoples and realize their hopes in a better future on the path to unity of their states. In conformity with the Charter of the League of Arab States which calls for the realization of closer relations and stronger bonds. In order to channel their efforts to reinforce and serve Arab and Islamic causes Have agreed as follows:

ARTICLE ONE

Establishment of Council

A council shall be established hereby to be named "The Cooperation Council for the Arab States of the Gulf," hereinafter referred to as the "Cooper-

ation Council.”

ARTICLE TWO

Headquarters

The Cooperation Council shall have its headquarters in Riyadh, Saudi Arabia.

ARTICLE THREE

Cooperation Council Meetings

The Council shall hold its meetings in the state where it has its headquarters, and may convene in any member state.

ARTICLE FOUR

Objectives

The basic objectives of the Cooperation Council are:

1. To effect coordination, integration and cooperation between member states in all fields in order to achieve unity among them.
2. To deepen and strengthen relations, links and scopes of cooperation now prevailing between their people in various fields.
3. To formulate similar regulations in various fields including the following:
 - a. Economics and finance
 - b. Commerce, customs and communication
 - c. Education and culture
 - d. Social and health affairs
 - e. Information and tourism
 - f. Legislation and administrative affairs.

4. To stimulate scientific and technological progress in the fields of industry, minerology, agriculture, water and animal resources; to establish scientific research centers; to implement common projects, and to encourage cooperation by the private sector for the good of their peoples.

ARTICLE FIVE

Council Membership

The cooperation Council shall be formed of the six states that participated in the Foreign Ministers' meeting held at Riyadh on February 4, 1981.

ARTICLE SIX

Structures of the Cooperation Council

The Cooperation Council shall have the following main structures:

1. Supreme Council to which shall be attached the Commission for Settlement of Disputes.
2. Ministerial Council.
3. Secretariat-General.

Each of these structures may establish branch organs as necessary.

ARTICLE SEVEN

Supreme Council

1. The Supreme Council is the highest authority of the Cooperation Council and shall be formed of heads of member states. Its presidency shall rotate alphabetically according to the names of the member states.
2. The Supreme Council shall hold one regular session every year. Extraordinary sessions may be convened at the request of any member seconded by

another member.

3. The Supreme Council shall hold its sessions in the territory of member states.
4. A Supreme Council meeting shall be considered valid if attended by two thirds of the member states.

ARTICLE EIGHT

Supreme Council's Functions

The Supreme Council shall endeavour to achieve the objectives of the Cooperation Council, particularly concerning the following:

1. Review matters of interest to the member states.
2. Lay down the higher policy for the Cooperation Council and the basic lines it should follow.
3. Review the recommendations, reports, studies and common projects submitted by the Ministerial Council for approval.
4. Review reports and studies which the Secretary-General is charged to prepare.
5. Approve the bases for dealing with other states and international organizations.
6. Approve the rules of procedure of the Commission for Settlement of Disputes and nominate its members.
7. Appoint the Secretary-General.
8. Amend the Charter of the Cooperation Council.
9. Approve the Council's Internal Rules.
10. Approve the budget of the Secretariat-General.

ARTICLE NINE

Voting in Supreme Council

1. Each member of the Supreme Council shall have one vote.
2. Resolutions of the Supreme Council on substantive matters shall be carried by unanimous approval of the member states participating in the voting, while resolutions on procedural matters shall be carried by a majority vote.

ARTICLE TEN Commission for Settlement of Disputes

1. The Cooperation Council shall have a commission called "Commission for Settlement of Disputes," which shall be attached to the Supreme Council.
2. The Supreme Council shall form the Commission for every case separately based on the nature of the dispute.
3. If a dispute arises over interpretation or implementation of the Charter and such dispute is not resolved within the ministerial Council or the Supreme Council, the Supreme Council may refer such dispute to the Commission for Settlement of Disputes.
4. The Commission shall submit its recommendations or opinion, as applicable, to the Supreme Council for appropriate action.

ARTICLE ELEVEN

Ministerial Council

1. The Ministerial Council shall consist of the Foreign Ministers of the member states or other delegated Ministers. The Council's presidency shall rotate among members every three months by alphabetical order of the states.
2. The Ministerial Council shall convene every three months and may hold extraordinary sessions at the invitation of any member seconded by another member.
3. The Ministerial Council shall decide the venue of its next session.
4. A Council's meeting shall be deemed valid if attended by two thirds of the member states.

ARTICLE TWELVE

Functions of the Ministerial Council

The Ministerial Council's functions shall include the following:

1. Propose policies, prepare recommendations, studies and projects aimed at developing cooperation and coordination among member states in the various fields and adopt required resolutions or appropriate recommendations.
2. Endeavour to encourage, develop and coordinate activities between member states in all fields. Resolutions adopted in such matters shall be referred to the Ministerial Council for further submission, with recommendations, to the Supreme Council for appropriate action.
3. Submit recommendations to the Ministers concerned to formulate policies whereby the Cooperation Council's resolutions may be put into action.
4. Encourage means of cooperation and coordination between the various private sector activities, develop cooperation between the member states' chambers of commerce and industry, and encourage flow of working citizens of the member states among them.
5. Refer any of the various facets of cooperation to one or more technical or specialized committees for study and presentation of relevant proposals.
6. Review proposals related to amendments to this Charter and submit appropriate recommendations to the Supreme Council.
7. Approve the Ministerial Council's Rules of Procedure as well as the Rules of Procedure of the Secretariate-General.
8. Appoint the Assistaant Secretaries-General, as nominated by the Secretary-General, for a renewable period of three years.
9. Approve periodic reports as well as internal rules and regulations related to administrative and financial affairs proposed by the Secretary General, and submit recommendations to the Supreme Council for approval of the budget

of the Secretariat General.

10. Make arrangements for the Supreme Council's meetings and prepare their agendas.
11. Review matters referred to it by the Supreme Council.

ARTICLE THIRTEEN

Voting in Ministerial Council

1. Every member of the Ministerial Council shall have one vote.
2. Resolutions of the Ministerial Council on substantive matters shall be carried by a unanimous vote of the member states present and voting, and on the procedural matters by a majority vote.

ARTICLE FOURTEEN

Secretariat-General

1. The Secretariat-General shall be composed of a Secretary-General who shall be assisted by deputies and a number of staff as required.
2. The Supreme Council shall appoint the Secretary-General, who shall be a citizen of one of the Cooperation Council states, for a period of three years which may be renewed for one time only.
3. The Secretary-General shall nominate the assistant secretaries-general.
4. The Secretary-General shall appoint the Secretariat-General's staff from among the citizens of member states and may not make exceptions with the approval of the Ministerial Council.
5. The Secretary-General shall be directly responsible for the work of the Secretariat-General and the smooth flow of work in its various organizations. He shall represent the Cooperation Council with other parties within the powers vested in him.

ARTICLE FIFTEEN

Functions of the Secretariat-General

The Secretariat-General shall undertake the following functions:

1. Prepare studies related to cooperation and coordination, integration and programs for member states' common action.
2. Prepare periodic reports on the Cooperation Council's work.
3. Follow up the implementation by the member of states of the resolutions and recommendations of the Supreme Council and Ministerial Council.
4. Prepare reports and studies ordered by the Supreme Council or Ministerial Council.
5. Prepare the draft of administrative and financial regulations commensurate with the growth of the Cooperation Council and its expanding responsibilities.
6. Prepare the Cooperation Council's budgets and accounts.
7. Make preparations for meetings, prepare agendas and draft resolutions for the Ministerial Council.
8. Recommend to the Chairman of the Ministerial Council the convening of extraordinary sessions of the Council whenever necessary.
9. Perform any other tasks entrusted to it by the Supreme Council or Ministerial Council.

ARTICLE SIXTEEN

The Secretary-General, the assistant secretaries-general and all members of the Secretariat-General's staff shall carry out their duties in complete independence and for the common interest of the member states.

They shall refrain from any action or behavior that is incompatible with

their duties and from divulging the secrets of their jobs either during or after their tenure of office.

ARTICLE SEVENTEEN

Privilege and Immunities

1. The Cooperation Council and its organizations shall enjoy on the territories of all member states such legal competence, privileges and immunities as required to realize their objectives and carry out their functions.
2. Representatives of the member states on the Council and the Council's employees, shall enjoy such privileges and immunities as are specified in agreements to be concluded for this purpose among the member states.
3. Until such time as the two agreements mentioned in item 2 above are prepared and put into effect, the representatives of the member states in the Cooperation Council and its staff shall enjoy the diplomatic privileges and immunities established for similar organizations.

ARTICLE EIGHTEEN

Charter Implementation

1. This Charter shall go into effect as of the date it is signed by the heads of the six member states named in this Charter's Preamble.
2. The original copy of this Charter shall be deposited with Saudi Arabia's Ministry of Foreign Affairs which shall deliver a true copy thereof to every member state, pending the establishment of the Secretariat-General at which time the latter shall become depository.

ARTICLE TWENTY

Amendments to Charter

1. Any member state may request an amendment to this Charter.
2. Requests for Charter amendments shall be submitted to the Secretary-General who shall refer them to the member states at least four months prior to submission to the Ministerial Council.
3. An amendment shall become effective if it is approved unanimously by the Supreme Council.

ARTICLE TWENTY-ONE

Closing Provisions

No reservations may be voiced with respect to the provisions of this Charter.

ARTICLE TWENTY-TWO

The Secretariate-General shall arrange to deposit and register copies of this Charter with the League of Arab States and the United Nations, by resolution of the Ministerial Council.

This Charter is signed on one copy in Arabic at Abu Dhabi City, United Arab Emirates, on 21 Rajab 1401 corresponding to May 25, 1981.

APPENDIX . B

Common Agricultural Policy of the GCC States, February 1984.

1. The Task

This paper presents a draft GCC common agricultural policy. The policy is placed within the framework of its premises and basic assumptions, the parameters for joint action, and the elements or functions within such parameters that are necessary to put the proposed policy into effect.

This paper was prepared pursuant to the resolution adopted by the GCC ministers of agriculture on 10 January 1983, which stated:

In order to achieve agricultural integration among the GCC states in accordance with a uniform strategy based on the optimum utilization of available water resources, and to provide for food security from national sources, the Secretariat General is hereby charged with drafting a common agricultural policy based on self development, increasing production, and encouraging joint projects in which the private sector participates.

II. Fundamentals of the Common Agricultural Policy

The aforementioned ministerial resolution laid down a number of premises and assumptions for a common agricultural policy, which may be defined and its objectives broken down as follows:

1. The policy must be based on a uniform strategy that may be defined as a uniform set of directives (policies and legislations that give them effect) and local development enterprises (plans and projects), as well as joint agriculture development plans that supplement and support the local effort, all of which together seek to accomplish specific social and economic objectives within a specified time frame. With this in mind, the strategy should be the practical

expression of a common agricultural policy.

2. A common agricultural policy would seek to achieve, through a uniform strategy, the agricultural integration of the GCC states, which may be defined as a state of a functional relationship (or coordination) between the means and objectives of agricultural development in the GCC states on the one hand, and a state of organic relationship (or integration) between the human, financial, and natural resources and capabilities that are required for a common agricultural development program, on the other. The strategy should be selected with a view to supplementing and supporting, and not supplanting, local efforts, and would be based on securing reciprocal and balanced benefits to the cooperating parties. Agricultural integration therefore would seek, through coordinating local efforts and supporting them by joint complementary efforts, to trigger and expedite the growth of agricultural production and to make such efforts more efficient.
3. This policy must seek the optimum utilization of the available natural resources (particularly irrigation water). This would require the intensification and rationalization of both local and joint efforts in two areas: (a) completing survey and exploration work for these resources and establishing efficient organizations for their utilization; and (b) a series of technical and regulatory measures that are required for rationalizing the utilization and conservation of such resources.
4. The policy must also seek to realize the highest possible level of self-sufficiency, particularly in regard to basic food commodities. The existing information on the available natural resources, both presently exploited or exploitable in the future, and on present and potential production levels, indicates that the GCC states can obtain a high degree of self-sufficiency in vegetable production and fish, and a limited one in fruits. The GCC are expected to attain self-sufficiency in the not-too-distant future. It should be noted, however,

that this growth was in fact based on changing from the importation of finished products to the importation of primary and secondary products (feed, breeding hens, and equipment). The GCC states may maintain the present level of dairy production (about 25 percent of consumption). The growth being experienced by this sector (albeit less than in poultry production), however, is dependent on the increased import of milch cows, concentrated feed, and the dried milk powder and fat that are used for reconstituting milk and other dairy products by most dairy plants in the GCC states. An improvement is expected in the level of self-sufficiency this season. The production of rice and maize will remain low, however (about eight percent for maize and nil for rice). A common agricultural policy that seeks a satisfactory and acceptable level of food security must therefore have the extra dimension of devising suitable formulae for cooperation between the GCC states and between the GCC states and the other Arab countries, particularly the adjacent ones.

5. An object of common agricultural policy should be to underscore and promote the role of the private sector in agriculture and related and complementary fields, such as the production input industry and the manufacturing and marketing of agricultural products. Such a policy must be based on the following considerations:
 - a. Responsibility for agricultural production and related and complementary production activity must be borne in the private sector except in certain cases, phases, and areas where the private sector is unable to provide the cash flow needed for achieving the stated objective. Even in such cases, entry by the public sector into most such investments must be temporary and until the rise of objective conditions that would enable the private sector to cover these investments.
 - b. The task of the states and their public sector investments, exercised through

their local and joint efforts under the uniform strategy, is to concentrate on providing the foundation and structural support needed for encouraging private initiative to adopt modern production methods, and for developing and modernizing traditional methods. This task involves a long series of actions that include providing the material infrastructure for production and crop marketing, and providing the basic needs of rural inhabitants. Foundation support included providing easy financing, price support, vocational training, technology creation and transfer, discovery of natural resources and protection from abusive exploitation, protecting the environment from pollution and, finally, regulating production relationships, including ownership, in such a way as to provide incentives and guarantee continuous attractive and fair returns for the efforts of producers.

- c. The policy of supporting the private sector must seek to balance and integrate modern and traditional methods of production whenever such circumstances obtain.

Areas where such balance and integration are needed in the GCC states are the production of fish and livestock. A large traditional sector exists in both these areas in the form of professional fishermen and nomadic and semi-nomadic herdsman. Both these areas, moreover, have become the arena for new investment in the form of trawler fleets, animal husbandry, and dairy production. In addition to the importance of maintaining a balance in the growth of the traditional and the modern sectors, good possibilities exist for them to be mutually complementary and supportive.

III. Perimeters of Joint Common Agricultural Policy Action

In order to transform the common agricultural policy into a strategy, the main programs of common action and their components must first be defined, for they form collectively the basis on which a uniform agricultural policy stands. This

necessarily requires achieving balance and consonance between the implementing features of each program. The joint action program for a uniform strategy involves:

- (1) a joint program to coordinate local agricultural plans and policies; ies
- (2) a joint program for agriculture and food production
- (3) a joint program for surveying, exploiting, and conserving natural al resources
- (4) a joint program for agricultural research and technology development. ment

1. Joint Program for Agricultural and Food Production

This program seeks to achieve a long-term view of the conditions of agriculture and food in the GCC states. It examines projected demand and the possibility of producing various agricultural commodities. It also seeks for the GCC states to prepare their development plans and agricultural planning and coordination of agricultural policies. To realize this end, the program should contain the following:

- (a) **Projections.** Such studies, by adopting a sound scientific methodology, seek to project demand and production of agricultural commodities over a long period (A.D. 2000) and over specific intervals (e.g. every five years), as well as the possible alternatives available to each GCC state. Demand projections will take account of the growth of population, per capita income, consumer spending, and changes in eating habits. Production porjections will take into account the available natural resources, production capacity, technological level, crop yields, and the influence of agricultural policies on prodding production. One result of such studies is estimating production inputs that are necessary for achieving a limited rate of growth, such as natural and financial resources, material production input, labor, and infrastructure. Such studies would obviously provide a scientific foundation for agricultural development planning on both the local and the common levels, and hence provide the basis for a uniform strategy.
- (b) **Uniform Agricultural Planning Methodology.** Projecting future supply and

demand for agricultural commodities would require local agricultural plans to share a common methodology and time frame. This would permit coordination, monitoring accomplishments, defining obstacles, and determining the policies and procedures necessary for achieving the stated goal. In other words, such a unification would permit the use of a common language for the formulation and evaluation of such plans. Studies of several agricultural plans in Arab countries reveal a great diversity in the methodology employed, their data base, and the extent of their coverage of various aspects of agricultural and rural development. As an immediate measure preparatory to devising a standardized methodology, it is recommended that an analytical assessment be made of existing agricultural development plans. Such a study may provide a scientific bases for the proposed standardized methodology. Recourse for guidance may be made to the study being prepared by the Arab Organization for Agricultural Development.

- (c) **Coordinating Agricultural Policies.** The coordination of local agricultural plans that are formulated within the framework of the uniform strategy would depend on the coordination of the agricultural policies employed. This, in turn, would require a comprehensive study of such policies (and their implementing legislation). Such a study would uncover the gaps in the policy, the extent of success in achieving stated goals, and ways of developing it into a more effective policy. Agricultural policies may be divided into two groupings:
- (i) **Economic and financial policies.** These include development financing, investment financing, and agricultural credit as well as pricing, supporting agricultural products and production inputs, and protecting local production from foreign competition.
 - (ii) **Technical policies.** These include:
 - . Policies regarding the use and conservation of such natural resources as

water, soil, grazing grounds, forests, and livestock, checking desertification, and protecting fisheries and the environment from pollution. . Policies regarding agricultural production that relate to crop yields and the role of the traditional and modern sectors and the public and private sectors, as well as the policy of state support with respect to the role of the state in the creation and the transfer of technology, vocational training, and providing inputs for modern production methods. . Policies that govern production relationships, the most important of which are land and crop ownership, labor productivity, returns from agriculture in comparison with other economic sectors, the provision of basic necessities to rural communities, and incentives to persons working in agriculture. . Policies regarding marketing and manufacturing, the extent of interconnection between marketing and manufacturing, the role of manufacturing and marketing in stabilizing and invigorating agricultural production, and the role of the private and public sectors.

2. Joint Program for Agricultural and Food Production

Pursuant to the policy of promoting the role of the private sector in agriculture and in other related and complementary profitable investment (producing and manufacturing production imports, marketing, and manufacturing), this program seeks to provide material and organizational support for the traditional and modern sides of the private sector with a view to increasing investment in this field and making it more efficient, and the creation of objective conditions necessary for its stability and confidence. This, however, should not exclude the public sector from participation in such investments when such participation serves the public interest and does not discourage private initiative. The objectives of the unified strategy would require the entry of the public sector in certain endeavors, phases, and areas where the private sector is unable or is reluctant to enter because of lack of experience or because such endeavors do not realize attractive financial returns in their

early stages.

Opportunities for joint ventures in the GCC states are available in the following fields:

- (a) Manufacturing and marketing of fish production.
- (b) Agriculture and industry-based production inputs for agriculture. e.
- (c) Manufacture of imported primary agricultural materials.

It should be pointed out in this connection that in view of such features of agriculture in the GCC states as the scarcity of natural agricultural resources (except for fish in the territorial waters of some states) on the one hand, and the abundance of financial resources in most of the states on the other, the opportunities, for joint-venture financing in the fields of agriculture are necessarily limited and hence opportunities mainly lie in the three above fields of endeavor.

The opportunity for fish production is basically available in some GCC states, while the opportunity for marketing exists in the other states and perhaps in several other Arab countries.

In regard to production inputs for agriculture, the preliminary information available indicates the existence of good joint-venture opportunities, most significantly in:

- (1) Industrial-based: chemical fertilizers, insecticides, and agricultural implements. The last category includes fishing boats, nets, and equipment; such farming structures as cow sheds, chicken coops, grain silos, cold stores, irrigation machinery and pumps, plastics used for shielded crops, etc. It is believed that the rise of such industries in the GCC states is economically and technically feasible due to the availability of cheap power sources and raw materials from petroleum and petroleum products. Cooperation by the GCC states in such industrial fields is expected to lead to the rise of a broad

range of industries to meet the demand in said states as well as Arab and non-Arab markets for such products.

- (2) Agriculture-based: The production of improved seed and seedlings, poultry hens, artificial insemination of livestock, and veterinary vaccines. It is believed that there are good opportunities in such fields for joint-venture investments and marketing in the GCC states.

Finally, and in view of the dependence of the GCC states on a large number of agricultural imports, it is possible to reduce the financial burdens involved through expanding the industry that utilizes imported primary agricultural products instead of importing manufactured goods. This already occurs in such fields as flour, dairies, meat, vegetable oils, and feed. It seems that large opportunities for expansion in this field still exist, especially in such areas as cotton and woolen textiles, tanning, and a number of food industries. Specifying joint venture opportunities in the area of agricultural production would obviously require detailed studies.

3. Joint Program for Surveying, Exploiting, and Conserving Natural Resources resources

This included water resources (both surface and underground), land and soil, natural grazing grounds, flocks, wild animals, forests, and fishing grounds.

The prevailing conditions with respect to most agricultural resources in the GCC states require upgrading the present limited efforts geared toward studying, surveying, conserving, developing, and rationalizing the exploitation of such resources.

It is believed that sufficient objective justifications exist for the joint performance by adjacent GCC states of many of these tasks. This is because either

some resources are shared by more than one state (as in the case of underground water basins) or because of their characteristic movement or the movement of influencing factors, such as grazing livestock, the spread of animal and plant diseases and plights (e.g., desert locust and bovine pox), and the movement of sand dunes and schools of fish in marine fishing grounds, environmental pollution, etc. Local efforts in most such fields obviously cannot achieve positive results unless they are fully coordinated with similar efforts in other GCC states.

The most significant opportunities for joint ventures in the field of natural resources are:

- (a) Upgrading, developing, and completing surveys of water resources, land, soil, marine fisheries, natural grazing grounds, grazing livestock, and wildlife by scientific foundations or local universities.
- (b) Undertaking joint projects to monitor the condition of these resources and changes occurring thereto by reason of natural factors (e.g. climate), or human action (e.g., environmental pollution and abusive exploitation), and carrying out joint projects (or coordinated countrywide projects, as the case may be) to check the negative impact of such influences.

4. Joint Program for Agricultural Research and Technology Development.

- 1. This is one of the most important aspects of cooperation between the GCC states in the field of agriculture. This is:
 - (a) Because agriculture technology, as opposed to other economic domains, must be derived from the environment in which it is employed, be it a natural or socio-economic environment. It therefore cannot be imported, and even what can be imported must first be subjected to adjustment experiments.
 - (b) And because a number of prevailing natural environmental factors impose severe conditions on agricultural production in the area. Among the most important of such factors are the scarcity and salinity of water, widespread desert soil, aridity, heat, and strong winds. Socio-economic factors that have

an impact are the scarcity and high cost of manpower and the widespread nomadic grazing system of animal products.

The factors collectively would require a great emphasis on agricultural research and the creation of a special technology for this area that can successfully interact with all the prevailing natural and socio-economic factors.

In view of the great similarity of the agricultural environment in the GCC states and the large technical and financial requirements for carrying out effective agricultural research, cooperation among the GCC states in this field, which is essential for the optimum utilization of scarce resources, should realize greater efficiency at a probably lower cost. By having a well articulated agricultural and livestock research program that is based on general regional (not local) considerations, it may be possible to link local research centers to the regional centers for feedback on research results. The functions of local centers under this program would be confined to adjustment experiments and tests, and to spreading the newly created technology in their respective states.

2. The effective transfer of technology created in research institutes would require the rise of joint vocational training programs for agricultural advisors who would transfer the technology to the arena of practical application. Such programs would also provide technical training for producers and their workers in various plant, animal, and fish specialities. This would require a study of the conditions of existing local and regional research centers and institutes with a view to developing them to meet future demands.

APPENDIX . C

Unified Industrial Development Strategy for the GCC States

The ministers of industry (Industrial Cooperation Committee), convinced of the necessity of pursuing the economically feasible industrial choice, not only to vary the sources of revenue but also to create an industrial society which is aware of the importance of industrialization in the life of nations, a society whose citizens are quick to acquire and grasp technical know-how and to use it flexibly to allow continued economic growth and prosperity for the citizens of the GCC states; and taking into consideration the Gulf region's conditions and nature; have decided to adopt the following basic principles as a strategy for industrial development in the GCC states.

I. Basic Aims of the Unified Strategy The basic aims of the GCC unified industrial development strategy are:

1. Promote industrial development in all GCC states on an integral and balanced basis suited to the potential and conditions of each state.
2. Increase the contribution of the conversion industries sector to the GNP to the highest level possible.
3. Increase the contribution of local labor to the industrial sector.
4. Narrow the industrial development gap between the GCC member states.
5. Realize an acceptable level of self-sufficiency in the production of industrial goods in the GCC states.
6. Provide an indigenous base for research and applied sciences and technology.
7. Integrate between the oil-gas sector and other economic sectors, particularly the industrial sector.
8. Create profitable opportunities for investing the surpluses and financial savings of the GCC states in the development of the conversion industries sector.

9. Develop the region's available natural resources and improve the efficiency of its industrial utilization.
10. Encourage the settlement of conversion industries in the countryside and in slow-growth areas.

II. Priorities of the Unified Strategy Special emphasis is placed at this stage in general on the following industries:

- a. Industries which rely on exploiting and developing local natural resources, including industries geared to foreign markets.
- b. Industries which meet urgent Gulf market demands, including food industries.
- c. Development of small and medium-sized industries which meet local market demands and prepare for the conversion of the Gulf society technically and psychologically to an industrial society.

With due regard to environmental protection requirements and the conservation of water resources, projects related to these industries shall receive priority in studies as well as preferential treatment in implementation, plus incentives and facilities in accordance with the following standards and criteria:

1. Industries currently in existence in the GCC states.
2. New industries which help improve the chances of success of existing GCC industries, especially basic industries, such as upstream and downstream industries related to iron, steel, aluminium, copper, petrochemicals, cement.
3. Advanced capital intensive industries which utilize locally available energy.
4. High quality export industries.
5. Strategic goods industries and industries of importance to security.
6. Import-substituting volume-reducing industries using raw materials available in the GCC states.
7. Industries jointly owned by the GCC governments, citizens, or both.
8. Capital goods industries aimed at Gulf and foreign markets, particularly

Arab and Islamic markets.

III. Policies and Requirements of Implementing the Unified Strategy

- 1. Strategy implementation policies.** Implementation of this unified strategy of industrial development is based on two main principles:
 - a.** Encouragement and guidance provided by governments of the GCC states to private sector initiatives in establishing viable industrial projects.
 - b.** Actual participation by governments of the GCC states in establishing viable industrial projects to supplement private sector efforts.

Encourage and Guide Private Sector Initiatives. The governments of the GCC states aim at encouraging, promoting, and guiding private sector efforts in pursuing industrial trends which are consistent with the priorities of the Unified Industrial Development Strategy by employing the following techniques:

- a.** Offer the incentives necessary for industrial projects, including foreign investments projects, which are consistent with strategy priorities.
- b.** Expand the scale of the basic infrastructure provided for industrial projects which are consistent with strategy priorities.
- c.** Provide and improve the general economic environment and the administrative and social environments suitable for motivating industrial movement in the GCC states.
- d.** Take the legal and administrative steps necessary for ensuring the success of the private sector's efforts in promoting industrialization in the GCC states.

Incentives. Incentives which may be offered by governments of the GCC states to Gulf industrial projects include the following:

- a.** Technical guidance and assistance in selecting, constructing, planning, and administering industrial plants.
- b.** Provide utilities to industries at nominal rates.
- c.** Exempt machinery and raw materials needed for industries from customs duties.

- d.** Tax exemptions.
- e.** Provide easy loan terms.
- f.** Give priority in government purchases to products of national industries which meet standards of quality, price, and timely delivery.
- g.** Promote industrial exports by various means including helping establish and develop centers devoted to the promotion of these goods in foreign markets.
- h.** Provide help in the training and skills development of national cadres.

These incentives may be given to projects on a preferential basis to reflect the priorities of the strategy.

Basic infrastructure. The infrastructure which the GCC governments aim at providing to industrial projects in the GCC states on a larger scale include:

- a.** Larger cities and industrial estates equipped with all the services and utilities needed by industry.
- b.** Dynamically improving and developing support sector services, foremost of which are road networks, ports, communication networks, banking services, insurance services, and commercial services.

Suitable industrial climate. The GCC governments are to provide a suitable industrial climate by giving special attention to the following areas:

- a.** Importance of developing industrial data systems for the GCC states.
- b.** Continue to develop and improve government apparatuses related to the industrial sector.
- c.** Patronize and reward inventors and industrial pioneers in their role as leaders of industrial development in the GCC states.
- d.** Prepare and publish studies on industrial investment opportunities and promote industrial projects expected to succeed especially in areas of slow development.
- e.** Encourage qualified nationals to engage in industrial projects, especially in

leading technical and administrative centers.

f. Spread industrial consciousness in the GCC states.

Administrative and legal measures. These measures include efforts exerted by the GCC governments to organize industrial work in general, in addition to efforts made by said governments to channel their educational and technical training policies to serve the aims of industrial development and expedite the settlement of industrial movement in the GCC states.

a. General organizational efforts. These include efforts of the GCC governments in the following major fields:

1. The attempt to standardize periods of economic development plans in the GCC states and to re-design those plans and coordinate their programs in the light of this unified strategy.
2. Improve the competitiveness of local industrial products in the GCC states vis-a-vis similar foreign goods.
3. Attract foreign investment to participate with national investment in industry, especially in industries consistent with the priorities of this strategy.
4. Develop and standardize industrial licensing procedures in the GCC states and agree on minimum conditions for licensing industries in the GCC states.
5. Develop and standardize approved specifications and measures for Gulf industrial products.
6. Ensure the application of unified GCC specifications and measures to imported industrial products.
7. Gradual standardization of industrial incentives and facilities, especially with regard to joint projects, provided that industrial specialization is observed.
8. Aim at standardizing and developing industrial legislation and at adopting and publishing such legislation.
9. Ensure further coordination in the establishment and operation of basic industries for foreign markets, and form a collective GCC negotiating center

- for marketing the products of such industries in international markets and for securing their needs from these markets.
10. Support and develop financial institutions devoted to financing industrial projects in member states and ensuring balanced industrial development in all the GCC states.
 11. Encourage the establishment of corporations and industrial investment companies, and the broadening of their ownership base.
 12. Strengthen and broaden the roles of GCC chambers of commerce and industry in providing data, revealing opportunities for industrial investment, promoting industrial projects throughout the GCC states, and helping Gulf industries overcome the difficulties they face.
 13. Plan and adopt a suitable fiscal and monetary policy capable of ensuring sufficient and continuous demand for products of national industry.
 14. Member states are to adopt a collective international industrial relations policy based on encouraging their exports, and should consider the possibility of adding new terms to foreign aid and trade agreements concluded with industrialized and developing countries to promote the industrial exports of the GCC states.
 15. Coordinate between the GCC states regarding loan agreement terms offered by foreign and international financial establishments, as well as suppliers facilities agreements.
 16. Coordinate between the GCC states regarding managements and marketing contracts concluded with foreign companies.
 17. Coordinate between joint GCC and Arab projects to avoid duplication, conflicts, wasting of financial and human resources, and competition for markets.
 18. Channel GCC foreign investments toward Arab, Islamic, and friendly countries, so that investments may be made in areas which serve to support the success of GCC industries, by ensuring markets for these industries, and

buying important raw materials for them, or supplying suitable technological requirements.

- b.** Channel educational, technical training, and labor policies.
 - 1.** Population policies are to be consistent with requirements of industrial policies in the GCC states.
 - 2.** Emphasis at universities and various professional training institutes and centers should be on specialties in technical skills needed by industry and on coordination between the GCC states in this area.
 - 3.** Coordinate pay scales, benefits, incentives, and employment agreement terms in the industrial sector among the GCC states.
 - 4.** Tie educational, training, and research plans with industrial development plans.
 - 5.** Emphasize the importance of technical and intermediate education and develop middle management cadres.
 - 6.** Increase the trading of expertise and training methods between the GCC states, and coordinate between them in developing the necessary training programs for the various industries.
 - 7.** Establish a unified policy for science and technology and increase research allotments in general budgets of industrial companies.
 - 8.** Tie research and technological centers to universities and industrial projects in the GCC states to enable these institutes to grasp, originate, and develop technology.
 - 9.** Help develop existing research centers and consulting offices in the GCC states and assist the countries which do not have such centers to establish them.
 - 10.** Tie research centers in the Gulf states with one another, set research priorities, and channel them towards applied research in industry.
 - 11.** Stress the importance of establishing and encouraging the establishment of

centers for production efficiency, industrial research, and research on the development of production techniques aimed at finding scientific solutions for industrial problems.

12. Support scientific laboratories and institutes capable of applying research and invention to industrial work.
13. Support and develop production technology support research such as research on marketing, wrapping, and packing.
14. Channel foreign investments of the GCC member states to foreign companies which have transferable technologies so that they may help in industrial development.
15. Establish a regional office for the registration of patents.
16. Encourage the establishment of national engineering design offices to help industry.
17. States should coordinate their policies for the import of industrial manpower, provided that priority is given to Arab manpower whenever possible.

Actual participation in establishment of industrial projects. To emphasize concern for expediting Gulf industrial development, the GCC states shall try singly or collectively, in collaboration with the private sector, to expedite industrialization by establishing industrial projects and participating in the establishment of joint projects within the following guidelines:

- a. Projects of basic or heavy industries which are characterized by high capital requirements or high risks.
- b. Industrial projects which are of importance to the security of the GCC states.
- c. Industrial projects in which the private sector is reluctant to invest despite their importance in supplying basic needs for the citizens of the GCC states.
- d. Advanced technology projects suited to regional conditions such as solar energy projects.
- e. Industrial projects which play an important role in strengthening and inte-

grating the member states.

- f. Selection of industrial projects for location in less developed areas.

In all cases, the GCC states shall do their utmost to encourage private sector participation in these projects. As a general rule, the GCC governments will try to allot a certain part of their share in these projects for the private sector as soon as such projects prove to be successful. Special importance shall be given to foreign participation in projects of advanced technology or projects owned by monopolies.

2. Strategy Requirements. The GCC states shall, singly or jointly, apply this strategy by taking its recommendations into consideration when making their development plans, with special emphasis on the following main points:
 - a. Improve the capabilities of government departments involved in industrial development in each GCC state and develop their work procedures to grasp and apply the mechanics required for the implementation of this strategy.
 - b. Improve and support the capabilities of the GCC's Secretariat General, especially the group in charge of industrial development, to enable it to handle the additional tasks resulting from the implementation of the strategy.
 - c. Seek the help of applied research institutes and centers, universities, specialized Gulf and regional establishments for the purpose of preparing the studies and surveys necessary to guarantee the successful implementation of the strategy.
 - d. Ensure the private sector's high response and its firm belief in the importance of implementing this strategy.
 - e. Ensure sufficient financing for the preparation of studies, surveys, and the implementation of projects resulting from these studies and surveys, in accordance with the priorities of the strategy and the requirements of follow-up and revision work in each of the phases of implementation of this strategy.

