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Marc Piazzolo*

Economic Upheaval in the Gulf Region

The six countries of the Gulf Cooperation Council face similar economic and political problems: falling oil revenues, growing budget deficits and increased demands on their foreign resources, a one-sided economic structure and increased pressure by public opinion for political rights. Their approaches to finding solutions have varied. Will these approaches be adequate to exploit the economic potential of the region in the future? Improvements in certain areas give ground for optimism.

The annual summit meeting of the six countries of the Gulf Cooperation Council (Saudi Arabia, United Arab Emirates, Kuwait, Oman, Qatar, Bahrain) in December 1994 made it clear once again that the Arabian oil monarchies are still far removed from the objective they have been aiming for since 1981, namely that of a regional economic and political bloc. Even the Gulf war more than four years ago caused them to move closer together only temporarily. Yet the six countries must find solutions for similar structural economic and political problems: falling oil revenues, growing budget deficits and increased demands on their foreign resources, a one-sided economic structure and increased pressure by public opinion for political rights.¹ The governments have in the meantime reacted in varying degrees of to this. But are their approaches to finding solutions adequate to exploit fully the economic potential of the region in the future, too? Improvements in certain areas give ground to think so.

Falling Oil Revenues

From its peak at the beginning of the eighties (US \$ 30 - 40 per barrel) the price of oil has fallen since 1985 - with the exception of the sudden rise during the Gulf war - to a range of US \$ 12-18. As the temporary increase in prices due to strikes in the Nigerian oil industry in July 1994 demonstrated, oil prices are in general subject to strong fluctuations. The artificial scarcity of supply induced by the OPEC caused the two oil crises of 1974 and 1979 but in the

end it led to a continual expansion of the supply of oil from countries outside the oil cartel, since the much more expensive development of the oil fields in the North Sea or Alaska was profitable under these price conditions. In addition, in recent years the development costs of new oil deposits has been considerably reduced by innovative technologies, so that even at an oil price of US \$ 15-17 per barrel oil can be won from the North Sea at a profit.²

On the demand side the increasing taxation of energy and the promotion of energy saving in the industrial countries led to stagnation in the demand for oil. Oil consumers, however, seldom profited from the worldwide fall in oil prices. The increased world supply combined with the slower growth in demand (to an increasing degree from the growth region of Asia) is reflected in OPEC's continually sinking share of world production to its present 39%. It is therefore also improbable that OPEC will achieve its aim of a price of \$ 21 per barrel in the near future. With a production figure of over 8.0 million barrels per day

¹ A detailed analysis of Oman's structural problems is to be found in: World Bank: Sultanate Oman - Sustainable Growth and Economic Diversification, World Bank Report No. 12199-OM (31.5.94). A brief summary is to be found in: Robin Allen: Oman warned: cut spending or face economic upheaval, in: Financial Times, 4.11.94. As the study was based on a World Bank mission in spring 1993, some of the recommendations of the World Bank had already been put into effect before their publication in Autumn 1994. This is true in particular for the reduction of the budget deficit to a planned 4% of GDP in 1994 and various privatisation projects.

² For example, the estimated cost of production of British North Sea oil is US \$ 12 -15 and of Norwegian US \$ 14 - 17. For Saudi Arabia, however, it is only US \$ 1 - 2 per barrel. This cost calculation includes a return of 15%. Oil fields in the USA, with the exception of Alaska and offshore fields, cannot be exploited profitably at a price of less than US \$ 25 per barrel. Cf. Thomas R. Stauffer: Trends in oil production costs in the Middle East, elsewhere, in: Oil & Gas Journal, 21.3.94, pp. 105-107.

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(mbd) and an additional production potential of approximately 2.0 mbd, Saudi Arabia dominates the oil cartel and is thus able to have a stabilising effect on short-term fluctuations in supply and demand.

In addition, the OPEC is confronted by its 12 members' lax observation of the quotas. By now almost all of these countries produce at the upper ceiling of their quotas in order to avoid having to accept a reduction in the latter (and thus of their national revenue) in the next round of negotiations. Tensions in connection with the determination of quotas are apparent in the case of Kuwait (restoration of the original quota parity with the UAE to a present 2.161 mbd) and the return of Iraq to the world oil market. If the UN sanctions against Iraq were lifted the OPEC would have to integrate about 10% of its present output into its sales volume. It is not to be

expected, however, that Iraq will enter onto the scene as an oil exporter worth mentioning (3 mbd maximum) before 1996/97. The tight budgetary situation in all of the member states will make the negotiations on the apportionment of the Iraqi production quota more difficult. A failure to reach agreement could lead to Iraq's leaving the OPEC.

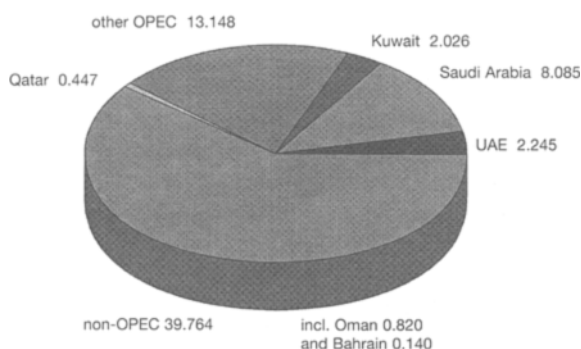
The Gulf states' high degree of dependence on oil price trends and on the latter's volatility is illustrated by the high shares of oil in total exports as well as in government revenue. Even the relatively oil-poor Bahrain records a share of exports and government revenue of two thirds.³ The fall in prices during the last two years and their stabilisation at a low level led to clear strains on the budgets of the Gulf states. For Saudi Arabia, with a GDP of \$ 123 bn. (1994) the dominant economic power in the region, a fall in oil prices of \$ 1 per barrel means a reduction in government revenue of around \$ 3 bn. This has caused the per capita income of the Saudis to fall by almost half since 1981 to \$ 7,400 (1994).

Figure 1
Dubai Spot Prices in US \$



Source: IMF.

Figure 2
Crude Oil Production in Million Barrels per Day
(1994, worldwide: 65.7 mbd)



Source: Petroleum Economist.

Rising Budget Deficits

With the exception of the United Arab Emirates, the falling government revenues led to a marked increase in budget deficits in 1993. Apart from the special case of Kuwait (reconstruction) the deficit is approximately 10% of GDP. Even Bahrain (which had a deficit of only 5% in 1994) will advance into this category this year because of the probable suspension of budget subsidies of \$ 50 m. each from Kuwait and Saudi Arabia.⁴ In the meantime the governments are of course first of all attempting to reduce overall government expenditure. Thus Saudi Arabia announced a 20% reduction for 1994 and Qatar and Oman one of 10%.⁵ There are enough starting-points for a general examination of the structure of government expenditure and revenue: until now the Gulf states have been able to strengthen the stability of their feudal social system by means of an extremely generous social policy. In addition to the exemption from personal taxes, with the exception of luxury goods virtually all goods and services have been kept

³ For Saudi Arabia oil exports in 1993 were US \$ 39.6 bn. or 88% of total exports and 80% of government revenue; UAE: oil exports US \$ 16.5 bn. or 75% of total exports and 83% of government revenue; Kuwait: oil exports US \$ 10 bn. or 95% of total exports and 90% of government revenue; National statistics; NCB Economist.

⁴ Bahrain's budget gap to widen 25 pc, in: Khaleej Times, 1.12.94.

⁵ Oman, MEED Special Report, 24. 6. 94, p. 5. In its budget for 1995 Saudi Arabia plans further cuts in government expenditure of approximately 6%; in: Saudi Arabia, MEED Special Report, 10. 3. 95, p. 28.

Table 1
General Economic Data

1994	Saudi Arabia ¹	UAE	Kuwait ²	Oman	Qatar	Bahrain
Population in m.	16.8	1.8	1.7	1.8	0.55	0.55
GDP in US \$ bn.	123.0	36.3	22.4	11.5	7.3	4.6
GDP per capita in \$	7 400	20 200	14 200	6 400	13 300	8 400
GDP growth (1993-1994)	0.4	0.1	11.0	-0.7	-2.5	2.7
Trade Balance in \$ bn.	15.6	3.5	3.7	1.5	0.9	-0.2
Merchandise Exports	41.2	25.3	10.5	5.3	3.0	3.5
Merchandise Imports	25.6	21.8	6.8	3.8	2.1	3.7
Current Account Balance	-15.3	0.5	2.5	-0.9	-1.1	-0.5
Foreign Exchange Reserves in \$ bn.	8.9	7.5	3.7	1.0	0.7	1.3
(Month/Year)	(5/95)	(4/95)	(5/95)	(2/95)	(4/95)	(4/95)
Budget Deficit in % of GDP	8.7	12	20	7.1	12	4.5
Military Expenditure in % of GDP (1993)	13.1	5.7	12.1	15.3	4.4	5.5

¹ In the case of Saudi Arabia in addition to the official foreign exchange reserves shown, the complete covering of cash in circulation by foreign exchange to the tune of US \$ 11 bn. must be taken into account. ² Following the reconstruction boom of 1992-1993, real Kuwaiti economic growth this year again approaches that of the other Gulf states at a rate of 3%.

Sources: IMF; International Institute for Strategic Studies; national statistics; own estimates.

inexpensive with the aid of government subsidies.⁶ The abandonment of this luxury, i.e. for example increases in the charges for electricity, water or communal waste disposal up to the level at which they would cover costs, is a politically delicate issue which, however, is now not only being discussed openly but has actually been introduced since the beginning of the year in Saudi Arabia.⁷ The levying of taxes on businesses or a value added tax are also no longer principally rejected. Oman has taken the first step among the Gulf states here by introducing a direct corporation tax of 5-7% as of 1st January 1995.⁸

A further strain on the national budget is imposed – as a result of the Gulf war of 1990 – not only by the direct costs of approximately \$ 55 bn. for the Saudis, but also by the high subsequent costs for the equipping of the Gulf states' defensive forces. The orders placed for Saudi Arabia alone for the period up to the year 2000 are estimated at \$ 20 bn. Expressed as a percentage of gross domestic product, the financial burden is highest for Saudi Arabia, Kuwait and Oman at over 12%, while for the Emirates, Qatar and Bahrain they are considerably lower. The strained budgetary situation has in the case of Saudi Arabia led to successful negotiations last year with the USA on the spreading of deliveries of military goods and the payments for them.⁹

If a glance is cast at the relationship between government consumer expenditure and gross investment as a percentage of GDP, the excessive level of government consumption – at over 32% – compared on an international level stands out. Only in

the United Arab Emirates do investments exceed government consumption. In order to free the economy from its one-sided dependence on oil, resources must in the long term be applied increasingly to investments.¹⁰

Increased Drawing on Foreign Assets

Saudi Arabia has lived with annual budget deficits for over 10 years, but it is only since the Gulf war, which also made a large hole in the balance of payments with a record deficit of \$ 27.6 bn. (1991), that the government has been forced to an ever increasing degree to resort to domestic credits or to reduce its foreign assets.

Whereas Saudi Arabia earned cumulative balance of payments surpluses of over \$ 160 bn. in the period 1973 to 1982, in the following 12 years it suffered equally severe financial losses. In the years 1991 to 1993 alone these amounted to almost \$ 63 bn. Despite

⁶ Cf. Ernst Herb: Saudi-Arabiens Abstieg in die Mittelklasse, in: Börsen-Zeitung, 2.3.94; Saudi Arabia: Economic Outlook 1995, in: NCB Economist, Vol.5, 1995, No.1, pp. 1-10.

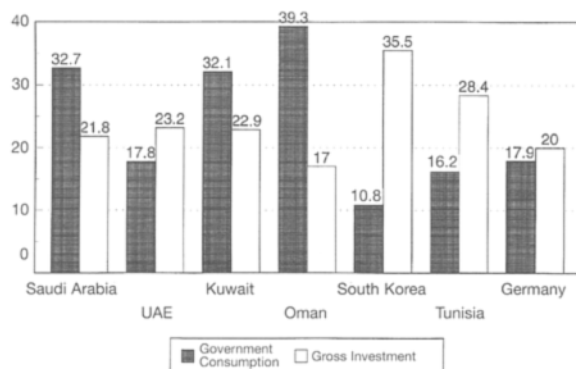
⁷ Kuwait: Das Emirat sucht Einnahmequellen, in: Handelsblatt, 23.9.94.

⁸ Economic Outlook in the GCC Countries, in: NCB Economist, Vol.4, 1994, No.2, p.6.

⁹ At the beginning of 1994 with five American enterprises over a trade volume of \$ 6 bn.; in: Saudi Arabia, MEED Special Report, 11.3.94, p.34.

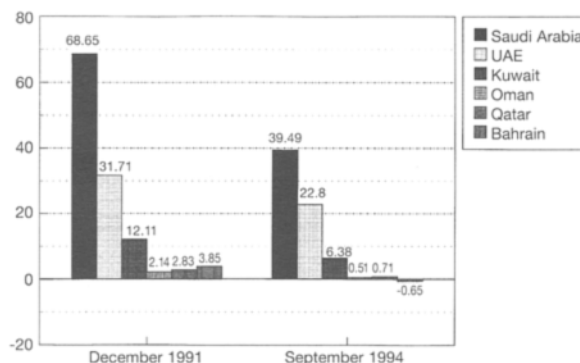
¹⁰ Since the investments are financed largely from domestic savings, the fall in the propensity to save to only 10.5% of GDP in Oman in 1993 (from 16% in 1991), for example, indicates a deterioration in the use of resources due to excessive consumption (both government and private). Cf. Ministry of Development, Sultanate of Oman: Statistical Yearbook, October 1994, Table 14-14.

Figure 3
Government Consumption and Gross Investment
Compared Internationally
(1993 in % of GDP)



Source: IMF.
Note 1992: Saudi Arabia, UAE and Oman.

Figure 4
Net Position of Reporting Bank Institutes
vis-à-vis Individual Countries
(all sectors in US \$ bn.)



Source: Bank for International Settlements.

falling imports of goods and services a deficit of more than \$ 10 bn. was expected for each of 1994 and 1995. In contrast, the Sheikhdom of Kuwait has succeeded within a space of two years via the rapid restoration of its oil production capacity in turning its unparalleled deficit of \$ 25.6 bn. (1991) into a surplus of \$ 6.3 bn. (1993).¹¹

The extent to which the Gulf states have drawn on their foreign assets can be seen in the reduction in the net balances of the Arabian banks and of the non-banking sector at foreign commercial banks within the last three and a half years. At \$ 30 bn. Saudi Arabia's consumption showed the greatest absolute figure, although in September 1994 its gross assets still stood at \$ 54.2 bn., of which less than half were held by the non-banking sector. Relatively speaking, Bahrain's position worsened most, with net liabilities of \$ 650 m.¹² The qualification must be made, however, that in this examination it was impossible to take into account an estimate of the portfolio asset position due to the lack of data. An indication of the approximate size can nevertheless be obtained from the sum of the accumulated net portfolio investments of the last 20 years. For Saudi Arabia this position,

after taking the inflow of \$ 22.6 bn. in direct investments into account, still lies at almost \$ 40 bn.¹³ Since the majority of the net portfolio investments were made by the beginning of the eighties, additional, considerable stock-price gains are probable. The same is true, for example, for Kuwait's large shares in Daimler-Benz and Hoechst.¹⁴ With almost \$ 5 bn. in revenue from interest and dividends (1993), equivalent to 47% of its exports of goods, the small sheikhdom continues to have the highest income from foreign assets. The question remains unanswered, however, as to how far the Arabian governments can draw on these assets to finance their budgets. Saudi Arabia's direct national debt in the form of borrowing on the local market has grown markedly since 1988 from \$ 11.2 bn. to an estimated \$ 85 bn. (70% of GDP) in 1994. Saudi Arabia's only syndicated bank loan taken out abroad (in 1991) of \$ 4.5 bn. was finally fully repaid by spring 1995.¹⁵ In April 1994 Oman placed a syndicated loan of \$ 300 m. for international subscription.¹⁶ The fact that it was over-

¹¹ International Monetary Fund: International Financial Statistics Yearbook 1994.

¹² Bank for International Settlements (BIS): Development of International Banking Trade and the International Financial Markets, Table 5a: External Positions of Reporting Banks vis-à-vis Individual Countries, Basle, February 1995. The Bavarian Landesbank sees Saudi Arabia as becoming a net debtor by 1998. Cf. Bavarian Landesbank: Saudi-Arabien: Auf dem Weg zum Netto-Schuldner, Konjunktur im Trend, October 1993.

¹³ International Monetary Fund, op.cit.

¹⁴ Hans K. Herdt: Kuwait als Aktionär, in: Börsen-Zeitung, 2. 12. 94.

¹⁵ A sign of financial pressure can be seen in the syndicated loan of \$ 1.3 bn. which the government had to take out at local banks in summer 1994. Cf. Saudi Arabia, MEED Special Report, 11.11. 94, pp. 42-43. In autumn 1994 the imposition of strict criteria on short-term export credit insurance by NCM Credit Insurance, a leading international insurance company, also caused unease in trade with Saudi Arabia. Cf. Roger Matthews: Insurer restricts business with Saudi Arabia, in: Financial Times, 26. 10. 94. This appears to have been a solo event until now, however, although shortly beforehand the US Secretary of the Treasury, Lloyd Bentsen, had publicly pointed out that the Saudis had certain problems serving their debts. At the same time he called for stricter budgetary discipline. Cf. Riyadh faces debt problem, in: Financial Times, 6. 10. 94.

¹⁶ For the first time in five years Qatar had to take out a sovereign loan of \$ 250 m. to finance its balance of payments deficit in spring 1994. Also, the figures for the national budget 1994-1995 were only made known with a delay of three months in June 1994. Cf. MEED Special Report Qatar, 9. 9. 94, p. 8.

REPORT

Table 2
Sectors of the Economy as a Percentage of GDP, 1993

	Saudi Arabia	Kuwait	Oman	Bahrain (1992)	Qatar (1992)	UAE
Agriculture	7.0	0.5	3.3	1.0	0.9	2.4
Oil and Gas	29.0	43.4	38.1	17.8	35.8	36.2
Manufacturing	11.4	8.6	5.2	15.3	12.7	10.4
Building and Construction	9.8	3.2	4.3	6.2	4.1	9.3
Private/Government Services	42.8	44.3	49.1	59.7	46.5	41.7

Sources: National Accounts; among others: Tab.: 3-14, Statistical Yearbook, Ministry of Development, Sultanate of Oman (October 1994); Tab. 38, Quarterly Statistical Bulletin, Vol. 20 (1994), No. 2, Central Bank of Kuwait; Tab. 2-1, Annual Report 1993, Bahrain Monetary Agency; Tab. 19, Quarterly Statistical Bulletin, Vol. 12 (1994), No. 4, Qatar Central Bank.

subscribed threefold is an indication that the reputation of the Gulf states on the international financial markets continues to be quite respectable – as their rating in spring 1995 by Euromoney and the Institutional Investor (29th to 43rd place among approximately 160 countries) also proves.¹⁷

One-sided Economic Structure

The Gulf states' great dependence on crude oil is reflected in their economic structure. The production and processing of oil dominates their economies and at the same time finds its counterpart in the prominent position of state enterprises and institutions which, financed by the revenues from the oil business, offer employment to the majority of the national population (not the numerous "guest workers"). Oil and natural gas are each responsible for between 30% (Saudi Arabia) and 44% (Kuwait) of GDP (cf. Table 2). Since oil is a non-renewable resource, the governments have been attempting since the eighties to find other bases for their economies by expanding alternative branches of industry. This diversification, which primarily consists of the establishment of oil-processing and energy-intensive industries, has made varying degrees of progress due to differences in the "pressure of time". Whereas Saudi Arabia has, at 260 bn. barrels, approximately a quarter of all known oil deposits at its disposal, the flow of oil would appear to be going to dry up for Bahrain, and somewhat more slowly for Qatar and Oman, within the next 5 to 20 years. Their diversification projects are correspondingly ambitious: in addition to the expansion of natural gas production, the major deposits of which lie mainly in the Persian Gulf, and petrochemicals, these consist of large aluminium smelting works (Bahrain, Qatar, Oman), steel furnaces (Qatar) and the establishment of trade and banking centres (Bahrain, UAE).¹⁸ Bahrain has now established itself as an international banking centre, even if the volume of assets of the offshore banking units at \$

64.5 bn. in December 1994 has not yet recovered to reach its pre-war peak of \$ 72.6 bn. (1989).¹⁹ Dubai (UAE) has by now attracted over one billion US \$ in direct investments with its free trade zone and has rapidly developed into an interregional trade centre (air and container freight). Manufacturing industry, in spite of its above-average annual growth rates, produces only about 9% of GDP in the UAE and Kuwait, while the figure for Oman is just 5%. Bahrain (15%) and Qatar (13%) are at the head of the regional league, but in their industrialisation they lie far behind the Asian NICs, and also behind Tunisia, whose manufacturing industry has a share of GDP of over 20%.²⁰

The narrow scope for financial policy in the last two years led to a rethinking with regard to the economic omnipotence of the state: the future realisation of expensive infrastructure projects with private participation is being considered. The privatisation of state enterprises is also planned. In Saudi Arabia, for example, the airline Saudia and the telephone company are under discussion.²¹ In Oman the state plans to withdraw completely from the hotel business.

¹⁷ Euromoney ranks the country risk of the Arabian countries among a total of 162 countries as follows: UAE (32), Bahrain (38), Saudi Arabia (36), Kuwait (37), Qatar (41) and Oman (43). The Institutional Investor ranks them only slightly differently in a sample of 134 countries: UAE (29), Saudi Arabia (32), Qatar (35), Kuwait (36), Bahrain (38) and Oman (39). Cf. Country Risk, in: Euromoney, March 1995, pp. 376-381; and Harvey D. Shapiro: before the fall, in: Institutional Investor, March 1995, pp. 125-126.

¹⁸ Roger Matthews: Quest for greater economic diversity, p.1; and Mark Nicholson: Aluminium Industry – cheap power sets the pace, p. 3, in: Bahrain, Financial Times Survey, 14. 7. 92; Economic Outlook in the GCC Countries, in: NCB Economist, Vol. 4, 1994, No. 2; MEED Special Report Qatar, 9. 9. 94; David Lascelles: Oman hands big gas field to joint venture, in: Financial Times, 11. 8. 94.

¹⁹ Bahrain Monetary Agency: Quarterly Statistical Bulletin, Vol. 20, 1994, No. 4, Table 18.

²⁰ Qatar Central Bank: Quarterly Statistical Bulletin, Vol. 12 (1994), No. 4, Table 19; Central Bank of Oman: Quarterly Bulletin, Vol. 20, 1994, No. 2, Table 26.

²¹ Wachsende finanzielle Probleme, in: Handelsblatt, 27. 9. 94.

At the same time the construction of the \$ 6 bn. natural gas project is not to be begun until the sales (mainly to Japan) are guaranteed. In Qatar the admission of private investors to infrastructure projects is even under consideration and the communal utilities are to be privatised. But the greater involvement of private capital in enterprises which have until now belonged to the state can only be successful if these enterprises are free to determine the prices for their products. In order, at the same time, to intensify competition, the still restrictive regulations regarding foreign shareholdings would have to be relaxed. Progress in these areas is slow, however.

This is reflected, so to speak, in the openness of the Arabian share markets: Saudi Arabia's stock exchange has the highest market capitalisation at \$ 38 bn. in 1994 (cf. Table 3), but at the same time, however, it is completely closed to investors outside of the Gulf Cooperation Council. Since 41% of the share capital are in the hands of the state, only the remaining 59% are de facto tradable, of which only a small share for investors from other Gulf states. In addition, the liquidity of the Saudi Arabian stock exchange is low, for in 1994 the trade volume was only 17.5% of the total shares volume. Bahrain, in contrast, allows open access to its stock exchange – with certain restrictions (e.g. a one percent maximum share of any individual investor in a particular enterprise). Kuwait and Oman have also allowed access to a limited degree.²² Following a boom year for the Saudi Arabian exchange of +92% in 1991, in 1992/1993 stagnation set in and last year there was a slump of -29%, which was considerably greater than the trend in the real economy (GDP shrinkage of approximately 1% in 1994).²³ In order to support the development of the regional capital market, in addition to the facilitation of access for foreign capital the listing of bonds and shares in all the Gulf state stock exchanges would have to be made possible. Bahrain and Oman were the first to begin, in March

1995, with the mutual quotation of certain enterprises. Governments have recently been availing themselves more strongly of their local capital markets for the issuing of government bonds. The raising of capital directly on the exchanges by enterprises is still not widespread. The issuing of company bonds by Aluminium Bahrain (\$ 50 m.) and the first public offering for ten years of Kuwaiti government shares in the Commercial Facilities Company (consumer goods financing) are first steps in this direction.²⁴

Creeping Democratisation

Following the Gulf war, Kuwait set a standard in October 1992 with the election of the first Arabian parliament – although with limited suffrage – which the surrounding sheikhdoms have imitated only hesitantly. In the same year the Emir of Bahrain appointed an advisory assembly with 30 members, which was to be upvalued due to public protest in December 1994. The Consultative Council consisting of 60 advisors which was initiated a year earlier by the Saudi Arabian King only has the right to be heard and to make recommendations, and cannot therefore be considered equal to a legislative assembly, but it puts its advisory role to very constructive use. Through this advisory body opinions and suggestions from outside are now increasingly taken into account during the preparation phase of government work.²⁵

Progress towards closer regional cooperation is slow due to a certain mistrust on the part of the small sheikhdoms towards the regionally dominant power of Saudi Arabia. Thus, it has not yet been possible to come to an agreement on an integrated customs area.²⁶ The border disputes between Qatar on the one hand and Saudi Arabia and Bahrain on the other are also not yet finally settled. In practice there is not even

Table 3
Shares Markets in the Gulf, 1994

	Market Capitalisation (in \$ bn.)	(in % of GDP)	Enterprises (no.)
Saudi Arabia	38.0	31	67
Kuwait	11.3	50	48
UAE	10.0	28	77
Bahrain	5.9	128	33
Oman	1.5	13	68

Source: NCB Economist.

²² Kuwait: Residents are allowed to own shares through mutual funds in certain companies; Oman: open to foreign investors through mutual funds, up to 49% of listed companies, in: NCB Economist, Vol. 5, 1995, No. 2, p. 10.

²³ Cf. Gulf Capital Markets, in: NCB Economist, Vol. 4, 1994, No. 6, pp. 1-8 and Vol. 5, 1995, No. 1, p. 10; and: More of that fabled Arab Hospitality, in: Euromoney, September 1994, pp. 372-375. By the end of April 1995 the Saudi Arabian share index had fallen by a further 9%.

²⁴ Aluminium Bahrain: MEED, 8. 4. 94, p. 19; the public share of the Commercial Facilities Company could be reduced in this way from 55% to 38%. Cf. Richard Lapper: Kuwaiti public offering draws strong demand, in: Financial Times, 23.9.94.

²⁵ Mark Nicholson: Year-old Saudi "parliament" is a quiet affair, in: Financial Times, 28. 12. 94. The Sultan of Oman replaced the appointed consultative committee in 1990 by a body consisting of representatives elected in the government districts but his absolute power continues to be hardly infringed upon. Cf. Oman – eine aufgeklärte Autokratie am Golf, in: Neue Zürcher Zeitung, 22. 11. 93.

a common position with regard to Iran and Iraq and as a result of the Gulf war it has, furthermore, only been possible to agree to a common troop with a symbolical strength of 4,000 men.

Reorientation of Exports Towards Asia

The fall in the price of the Gulf states' main export, oil (export share 85%), contributed to their loss of importance for world trade during the last ten years. In 1994 their share lay at just under 2%. Western Europe in particular drastically reduced its dependence on imports of crude oil from the Middle East from 40% in 1980 to less than 20% in 1992. Meanwhile, Japan and the Asian NICs continue to cover almost 50% (US \$ 44 bn.) of their oil imports needs from the Arab area.²⁷ Also, the countries of the Middle East achieved a high balance of trade surplus with Asia (US \$ 15 bn. in 1992), which covered their deficit of roughly the same amount towards the European Union. Western Europe exported goods to the value of US \$ 53 bn. to the Middle East in 1993.²⁸

German exports to the Gulf states increased in 1994 by 14.5% to DM 8.6 bn. Their share of total exports is, however, relatively low at 1.3%. The most important importing country was again Saudi Arabia with DM 4.1 bn. before the United Arab Emirates with DM 2.7 bn. (cf. Table 4).²⁹ German enterprises export primarily machinery, vehicles, electronic goods, and iron and steel products. The trend in imports was in the opposite direction last year: they fell by approximately 13.6% to a total of DM 2.1 bn. Their share of total imports was not even 0.4%. Approximately 70% of the German imports were purchases of crude oil. However, less than 10% of Germany's total imports of crude oil came from the Gulf region.

An economic reason for the slow growth of regional cooperation among the Gulf states lies in the low volume of their intra-regional trade. While in 1993 22% of the Gulf states' exports went to Japan alone

and 15% to the four East Asian NICs, the mutual foreign trade of the Gulf states themselves made up only 7% of their total trade.³⁰

Improved Economic Outlook

After the Gulf states were unable to show any signs of successful growth in the last two years – with the exception of Kuwait due to the reconstruction – the outlook now appears to be improving due to a slight rise in the oil price level and to the improvement in the international economy. It is unlikely, however, that economic growth will already achieve the same rate as that of the population, namely 3-3.5 %, in 1995. In the long run the region will in any case have no choice but to tackle its structural problems offensively. The Saudi Arabian government's sixth five-year plan, which came into force on January 1st, foresees the elimination of the budget deficit by the year 2000, mainly by the reduction of subsidies, and it specifically states that private enterprise is to play a greater role.³¹ The other Gulf states are planning similar measures, and the United Arab Emirates have made the most progress to date with their implementation. The sound monetary policy in the entire region with inflation rates of under 5% and exchange rates fixed to the US dollar plays a supportive role here. The necessary diversification of the Arab economies will also be facilitated if, among other things, the reduction of institutional regulations and opening for foreign investors is pushed ahead. At the same time, a peaceful "Middle East" with access to the regional "know-how agency" Israel offers in the long term new inner-Arabian potentials for growth, from which the Gulf states can only profit.

Table 4
German Foreign Trade, 1994
(DM million)

	Exports	Imports	Trade Balance
Saudi Arabia	4148	1539	2609
United Arab Emirates	2655	219	2436
Kuwait	816	242	571
Qatar	406	10	396
Oman	307	14	293
Bahrain	225	43	182
Gulf Cooperation Council	8554	2067	6487

Source: Statistisches Bundesamt.

²⁶ Cf. In wichtigen Fragen keine Einigung, in: Handelsblatt, 19. 12. 94; Der Golfkooperationsrat auf ausgetretenen Pfaden, in: Neue Zürcher Zeitung, 22. 12. 94.

²⁷ The Arabian share of world exports of crude oil sank from 40% in 1980 to 29% in 1992. In 1993, 43% of Arabian exports went to Asia and 27% to Western Europe. On the import side, Western Europe's share was 44%, Asia's 25%.

²⁸ Cf. GATT: International Trade 1994, Trends and Statistics.

²⁹ In the entire Arab world only Israel (DM 3.6 bn.), Iran (DM 2.6 bn.) and Egypt (DM 2.1 bn.) are of similar importance for German exports as Saudi Arabia and the UAE.

³⁰ IMF: Direction of Trade Statistics 1994. Only Bahrain showed more intensive interregional trade, with an import share of 43% from the GCC – almost exclusively oil from Saudi Arabia in order to utilize the capacity of Bahrain's refinery Sitra.

³¹ Cf. Riad weist der Privatwirtschaft künftig eine größere Rolle zu, in: Handelsblatt, 7. 12. 94. This year government expenditure is to be reduced by a further 6% (following a planned 20% in 1994). At the same time the prices of petrol and electricity were doubled in January 1995. Both of these measures are intended to help to reduce the budget deficit to 3.3% of GDP. Cf. Mark Nicholson: Saudi budget aims at 6% spending cuts, in: Financial Times, 3. 1. 94.