

# Will Stabilisation Limit Protectionism? The 4th GTA Report A Focus on the Gulf Region

Edited by Simon J. Evenett



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# **Will Stabilisation Limit Protectionism?**

## **The 4th GTA Report**

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# **Will Stabilisation Limit Protectionism? The 4th GTA Report**

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## About Global Trade Alert (GTA)

Global Trade Alert provides information in real time on state measures taken during the current global economic downturn that are likely to discriminate against foreign commerce. Global Trade Alert is:

**Independent:** GTA is co-ordinated by the Centre for Economic Policy Research, an independent academic and policy research think-tank based in London, UK. GTA draws upon expertise and analysis from 7 independent research institutions around the world.

**Comprehensive:** GTA complements and goes beyond the WTO and World Bank's monitoring initiatives by identifying those trading partners likely to be harmed by state measures.

**Accessible:** The GTA website allows policy-makers, exporters, the media, and analysts to search the posted government measures by implementing country, by trading partners harmed, and by sector. Third parties will be able to report suspicious state measures and governments will be given the right to reply to any of their measures listed on the website.

**Transparent:** The GTA website allows policymakers, government officials, exporters, the media, and analysts to report discriminatory measures, but also will provide data for all stakeholders on the posted government measures by implementing country, by trading partners harmed, and by sector.

**Timely:** The up-to-date information and informed commentary provided by Global Trade Alert will help ensure that the G20 pledge not to "repeat the historic mistakes of protectionism of previous eras" is met, by maintaining confidence in the world trading system, deterring beggar-thy-neighbour acts, and preserving the contribution that exports could play in the future recovery of the world economy.

For further information, visit [www.GlobalTradeAlert.org](http://www.GlobalTradeAlert.org)

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# Foreword

Global Trade Alert is now into its eighth month of monitoring and reporting, in 'real time', on state measures taken during the global downturn that are likely to affect foreign commerce. The database of government initiatives undertaken since November 2008 continues to grow, with now over 700 measures investigated by our independent team of trade policy analysts based around the globe. We began our work in the midst of the global crisis – since then, however, the economic landscape has changed. Many economies have stabilised and some are even beginning to recover since the last quarter of 2009. Given this changing environment one might expect that governments might relax their resort to protectionism - or is it perhaps too early for them to be confident enough not to discriminate against foreign commercial interests? As Simon Evenett points out in the Executive Summary, the answers to such questions will partly determine what contribution exports and the world trading system is likely to play in fostering growth during 2010.

This report, which is the fourth produced by the GTA team since its inception, examines whether macroeconomic stabilisation has altered governments' tendencies towards protectionism. It sheds light on the extent, nature and possible harm done by discriminatory state measures taken since the global financial markets, and subsequently the global economy, went into free fall. It focuses, in particular, on commercial policy developments and prospects in the Gulf region. The principal findings of the report suggest that macroeconomic stabilisation has not dampened protectionism; rather, that the rate of protectionism is not out of line with what was experienced during 2009. We also learn that the types of protectionism used the most have not changed during the process of stabilisation and that, if anything, G20 governments have been responsible for a higher share of protectionist measures since stabilisation began.

We are delighted that this report will be launched at the Jeddah Economic Forum, 13-16 February 2010. We are also very grateful to our GTA partner, the Gulf Research Center, under the leadership of Dr. Abdulaziz Othman Sager, for coordinating and providing valuable inputs to this report. Once again, we must also wholeheartedly acknowledge and thank Simon Evenett for his commitment and leadership of the GTA initiative, as well as express our thanks to his hard-working team at the Swiss Institute for International Economics and Applied Economic Research in St. Gallen, Switzerland, who prepared the summary tables and maps and provided general research support – namely, Johannes Fritz, Darya Gerasimenko, Malwina Nowakowska, and Martin Wermelinger. CEPR's Publications Manager, Anil Shamdasani, provided invaluable last-minute support, as ever. The task of collecting

and analysing the data has been conducted very efficiently and professionally by GTA's regional network partners, notably, the African Centre for Economic Transformation (ACET), the Centre for International Governance Innovation (CIGI), the Gulf Research Center (GRC), the Latin American Trade Network (LATN), and the Research and Information System for Developing Countries (RIS). We also owe thanks to GTA's supporters: the Centre for International Governance Innovation, the German Marshall Fund of the United States, the International Development Research Center, the Trade Policy Unit of the UK Department for Business, Innovation and Skills and the Department for International Development. In particular we would like to acknowledge financial support from the Global Trade and Financial Architecture project (an initiative of the UK Department for International Development and the World Bank). Indeed, the support from all our partners has been generous and most welcome, but they of course play no role in the operation of GTA, nor do they necessarily endorse the opinions expressed in this Report.

We have been very much encouraged by the overwhelmingly positive reaction and take-up to the work of GTA from the world's media, policymakers and the international trade community in general, and are convinced by this response that an independent initiative such as GTA is necessary, valuable and can sit comfortably alongside, and complement, other such monitoring initiatives that are taking place around the world. In this spirit, we trust that the contents of this report, and the ongoing work of GTA, will continue to be of interest to trade policymakers, commercial organisations, NGOs and analysts following developments in the world trading system.

Stephen Yeo  
Chief Executive Officer, CEPR  
London, 1 February 2010

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# Executive Summary

**Simon J. Evenett**

*University of St. Gallen and CEPR*

After contracting sharply in the first half of 2009 many economies stabilised and some even began to recover in the last quarter of 2009. Using information compiled through to late January 2010 this, the fourth, report of the Global Trade Alert examines whether macroeconomic stabilisation has altered governments' resort to protectionism. Has economic recovery advanced enough so that national policymakers now feel little or no pressure to restrict international commerce? Or is the recovery so nascent that governments continue to discriminate against foreign commercial interests, much as they did during the darker days of 2009? The answers to these questions will partly determine what contribution exports and the world trading system is likely to play in fostering growth during 2010.

This Report is published in February 2010 to coincide with the Jeddah Economic Forum. State measures announced and implemented from November 2008 fall within the remit of the GTA. Consequently, this Report sheds light on the extent, nature, and possible harm done by discriminatory state measures taken since global financial markets and subsequently the global economy went into free fall. In contrast to our previous report, where particular attention was given to developments in the Asia-Pacific region, in this report commercial policy developments and prospects in the Gulf region are assessed.

An assessment as to the extent and changes over time in protectionist dynamics is also provided for in this Report, by considering not just the quarter-by-quarter changes in the numbers of protectionist measures implemented but also the number of pending measures that have been announced and are expected to be implemented in the future. Information on the pending measures provides policymakers with an "early warning" of what is to come, a feature unique to the GTA's monitoring initiative.

Global Trade Alert (GTA) has always operated on the assumption that in current circumstances the most practical approach to resisting protectionism is to combine peer pressure with high-quality, current information about state measures and their actual or potential effects on foreign commercial interests. Governments, the media, and civil society are the key sources of the former; the job of Global Trade Alert and other monitoring exercises is to provide the latter.

## Principal findings of the Fourth Report

The first three findings speak to the potential impact of the macroeconomic stabili-

sation of late 2009 on very recent protectionist trends--it being understood that should the global recovery strengthen in 2010, then these findings may have to be revisited.

1. **Stabilisation certainly hasn't ended protectionism.** Since the beginning of the fourth quarter on 2009 a substantial number (63) of beggar-thy-neighbour policies have been implemented.<sup>1</sup> Given reporting lags, this rate of protectionism is not out of line with that experienced in 2009.
2. **The types of protectionism used the most haven't changed as economies stabilised.** Bailouts of manufacturing and financial firms as well as trade defense measures account for a large fraction of beggar-thy-neighbour state measures implemented since the fourth quarter of 2009 began.
3. **If anything, G-20 governments have been responsible for a higher share of protectionist measures since stabilisation began.** Since the crisis began that share had been running at seven-tenths, for the discriminatory measures introduced during and since the fourth quarter of 2009 that share is now close to four-fifths.

Analysis of the GTA database revealed the following two significant findings concerning the scope of crisis-era protectionism.

4. **The extent of anti-foreigner discrimination in 2009 is much higher than originally reported. Any suggestion that 2009 was a benign, low protectionism era should be dismissed.** As reporting and investigative lags have been overcome, the number of beggar-thy-neighbour measures implemented in 2009 is now higher than originally thought. For example, in our second report (published only five months ago) we stated that 77 such measures were implemented in the first quarter of 2009. Now we calculate that 111 such measures were in fact implemented during the same quarter, a 44 percent increase. (Similar percentage increases apply to the measures implemented in the second and third quarters of 2009.) **A conservative estimate is that in total governments resorted to protectionism measures roughly 100 times a quarter before the macroeconomic stabilisation of late 2009; a depressing centenary of lost commercial opportunities, career setbacks, and investment losses.** In short, resort to protectionism in 2009 was much larger than estimates at the time suggested; a point to bear in mind when interpreting any contemporary estimates presented in 2010.
5. **Since the first G-20 Ministerial meeting in November 2008, the ten traders most affected by foreign protectionism have each suffered more than one hundred hits to their commercial interests.** With the updating of the GTA's database for this Report another depressing centenary was passed. Each of the trading partners most often hit by foreign protectionism has suffered over 100 blows to their commercial policy interests. The considerable press attention given to protectionism against China should not be read to imply that other large trading nations have emerged unscathed from foreign protectionism. What separates China from those other trading nations is, in this respect, merely a matter of degree.

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<sup>1</sup> The measures taken referred to here are state measures whose implementation on or after 1 October 2009 has almost certainly discriminated against or likely discriminated against foreign commercial interests.

### **How GTA built its extensive database on contemporary protectionism**

Since GTA was launched on 8 June 2009 over 600 state initiatives have been investigated by our independent team of trade policy analysts located around the globe. These initiatives vary from packages of wide-ranging public measures, with many implications for trade and investment policy instruments, to temporary tariff increases on single product lines. GTA's goal is to provide the most comprehensive online database of state measures taken since the first crisis-related G20 summit in November 2008 that might affect foreign commercial interests. The latter are broadly conceived by the GTA team to include not just trade flows and foreign investments but also intellectual property rights and migrant workers deployed abroad. It is through careful, multi-faceted investigations of these initiatives that a rich evidential base was built, from which the contours of contemporary protectionism can be discerned. Users can access this evidence at the website: [www.global-tradealert.org](http://www.global-tradealert.org)

One of the most important steps in a GTA investigation is to establish whether the implementation of a state initiative has, or is likely, to alter the relative treatment of domestic and foreign commercial interests in the markets where the initiative's effects will be felt. In common parlance, GTA checks whether a state initiative tilts the playing field against foreign firms. GTA, therefore, does not opine on the WTO legality of a measure or whether a measure is "appropriate," "fair," "reasonable" or "crisis-related" (there being no agreed definitions of these terms.)

State initiatives that almost certainly (or certainly) introduce or change asymmetries of treatment to the detriment of some foreign commercial interests are deemed by the Global Trade Alert to be contrary to the no-protectionism pledges made at the November 2008 G20 summit in Washington, DC, and elsewhere. In this Executive Summary, the phrases discriminatory and protectionist are used synonymously.

Without attempts to carefully enumerate the different types of state measures used and their various effects, any assessment of contemporary protectionism is likely to overlook key trends and is of diminished value to policymakers. That is why GTA goes beyond providing an assessment of the discriminatory impact of state initiatives. Examination of the tariff lines, sectors, and trading partners that are likely to be affected by each state initiative are carefully conducted so as to provide some indication of a public initiative's impact in what is still a relatively interdependent global economy even though, strictly speaking, there may be some circumstances where some form of discrimination is needed to attain a non-protectionist government objective.

No doubt purists will argue that a complete understanding of the consequences of crisis-era protectionism requires a detailed economic analysis of each state initiative. Such analyses could indeed be very useful, indeed the GTA team is and would gladly cooperate with experts interested in conducting such studies. But, leaving aside the question of resources and the availability of all the necessary data, quite frankly it is utopian to believe that over 700 such analyses could be conducted in the timeframe necessary to influence policy-making. In short, we should not make the perfect the enemy of the very good. GTA's investigations go a long way towards indicating the scale of an initiative's effects by making extensive use of publicly available trade, investment, migration, and other data. Still, the GTA team welcomes suggestions that will result in further improvements in the coverage and assessment of state initiatives.

*Note: See Evenett (2009a) for an overview of the GTA's methodology and Evenett (2009b) for a discussion of the concerns some have raised about the GTA's approach.*

## **Mapping Crisis-Era Protectionism**

Sometimes averages and totals obscure interesting variation across countries. To counter this in each report of the Global Trade Alert several maps have been generated. These maps are reproduced at the end of this Executive Summary. Map 1.1 shows how many almost certainly discriminatory measures have been implemented by each jurisdiction since November 2008. There is considerable variation across countries. While a number of Sub-Saharan African countries have implemented no such measures, almost every major trading nation has implemented 10 or more such measures since the first G-20 crisis meeting.

Map 1.2. shows that the overwhelming majority of nations will find their countries' commercial interests harmed if the discriminatory measures in the pipeline are actually implemented. China, Indonesia, Japan, the United States, and several European nations could be harmed by over 30 pending measures, providing one indication of the stake that some have in keeping borders open during 2010.

Some government initiatives affect very few trading partners, others many. Map 1.3. reports the total number of trading partners that - on the basis of existing flows of goods, investments, and people across borders - are likely to have been harmed by the implementation of a government's discriminatory measures. Eleven national governments have already taken measures that harm 100 or more of their trading partners. Maps 1.4. and 1.5. report the number of product categories (4 digit tariff lines) and economic sectors affected by the discriminatory measures that have been put in place since the first crisis-related G-20 summit in November 2008.

Maps were also generated for the number of times that each jurisdiction's commercial interests have been harmed by other countries' discriminatory measures. Given the enduring interest in whether the G-20 member states have lived up to their no-protectionism pledge, Map 1.6. may be of particular interest. This map demonstrates the almost global reach of the harm done when G-20 governments thought it wise to violate their own no-protectionism pledge. No one can claim that the damage done by the G-20 members was confined to themselves.

Maps 1.7. and 1.8. provide more evidence against the propositions that contemporary protectionism is confined to a small number of implementing jurisdictions, that the harm is confined to a small number of jurisdictions, and that essentially the problem is localised. Taken together, these maps shed light on both the victims and perpetrators of crisis-era discrimination against overseas commercial interests.

## **The organisation and contents of the remainder of this Report**

The rest of this Report is organised as follows. The large number of state measures investigated by the GTA team provide the evidential base from which trends in contemporary protectionism can be assessed. Next an account of the protectionist dynamics worldwide is provided, with a particular focus on developments from the fourth quarter of 2009 (when economic stabilisation and recovery was said to take hold in many economies.) This global perspective is complemented by five papers on contemporary commercial policy challenges facing the Gulf region. These points provide a useful reminder that the opportunities and threats created by crisis-era protec-

tionism can be heavily dependent on inherited economic structures and resources and long-standing diplomatic and geopolitical considerations. Finally, for each nation in the Gulf region information is presented on the extent to which its commercial interests have been harmed by the actions of other countries. Symmetrically, information is presented on the extent to which each nation's state measures have affected other trading partners.

## References

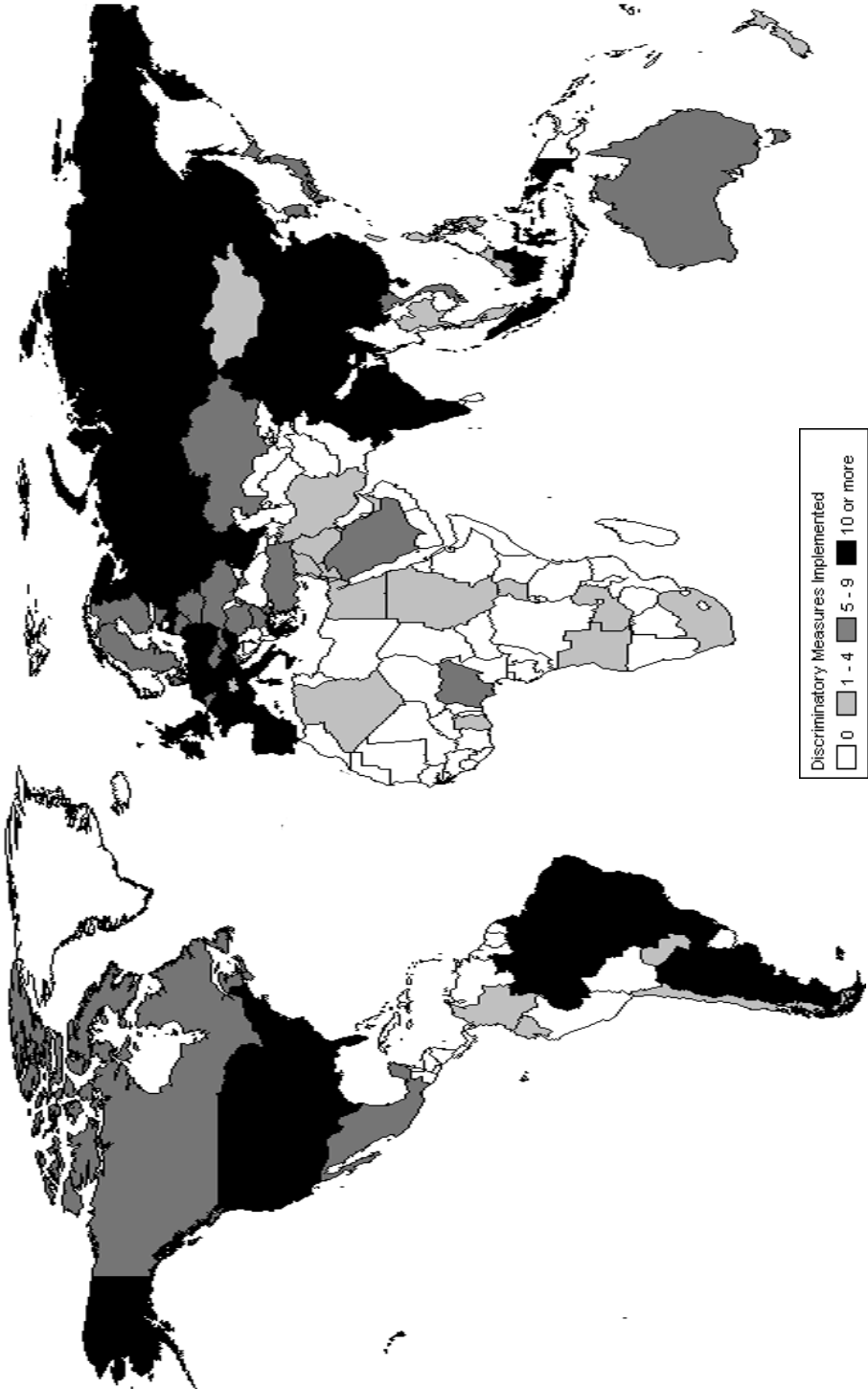
- Evenett (2009a). Simon J. Evenett. "What can be learned from crisis-era protectionism? An Initial Assessment." *Business & Politics*. October.
- Evenett (2009b). Simon J. Evenett. " Crisis-era protectionism one year after the Washington G20 meeting: A GTA update, *some new analysis, and a few words of caution.*" In Richard E. Baldwin (ed.). *The Great Trade Collapse: Causes, Consequences and Prospects*. VoxEU.org publication. December 2009.

## About the author

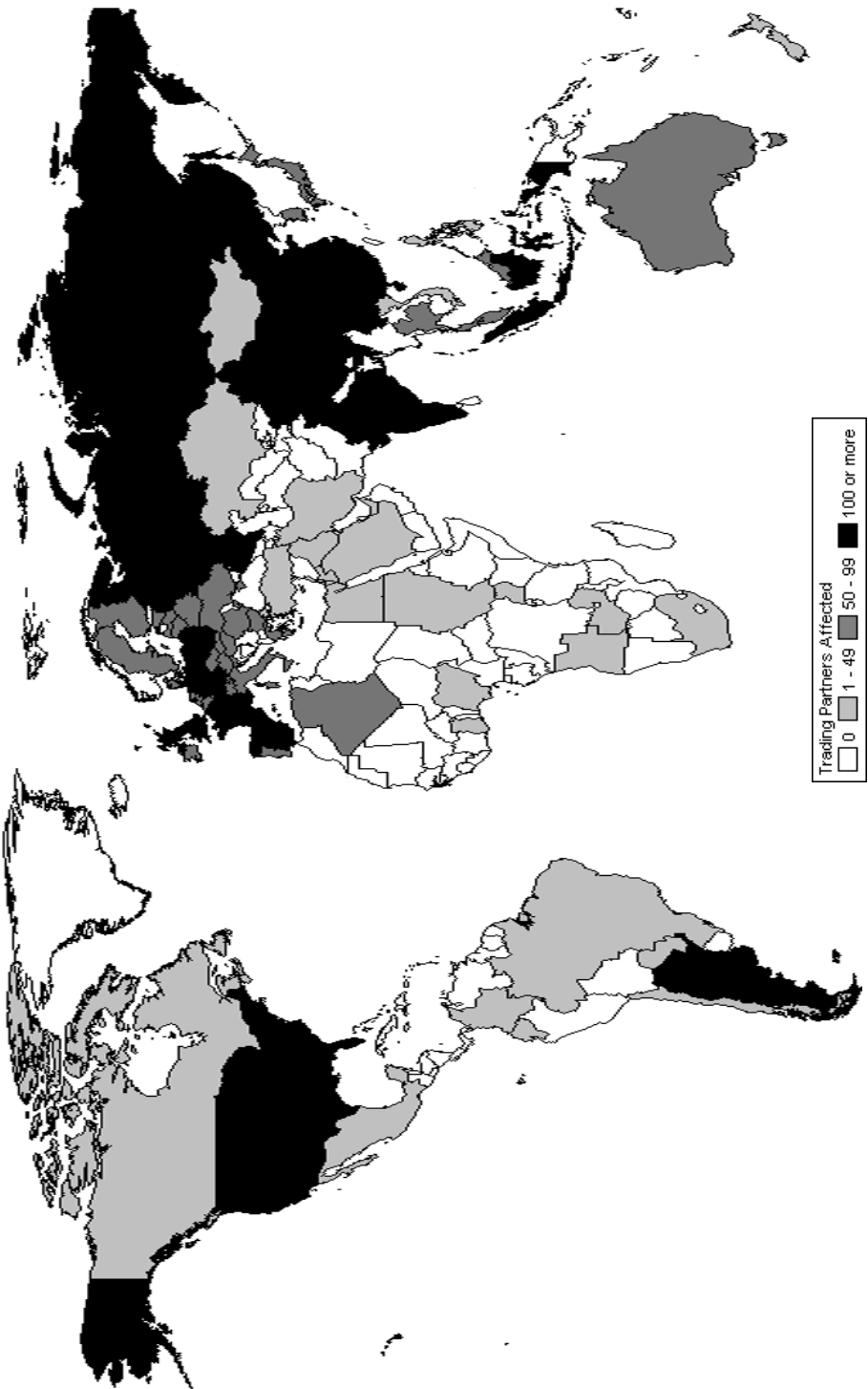
**Simon J. Evenett** is Professor of International Trade and Economic Development, University of St. Gallen, Switzerland; Co-Director of the International Trade and Regional Economics Programme, CEPR; and Coordinator of Global Trade Alert.

30 January 2010

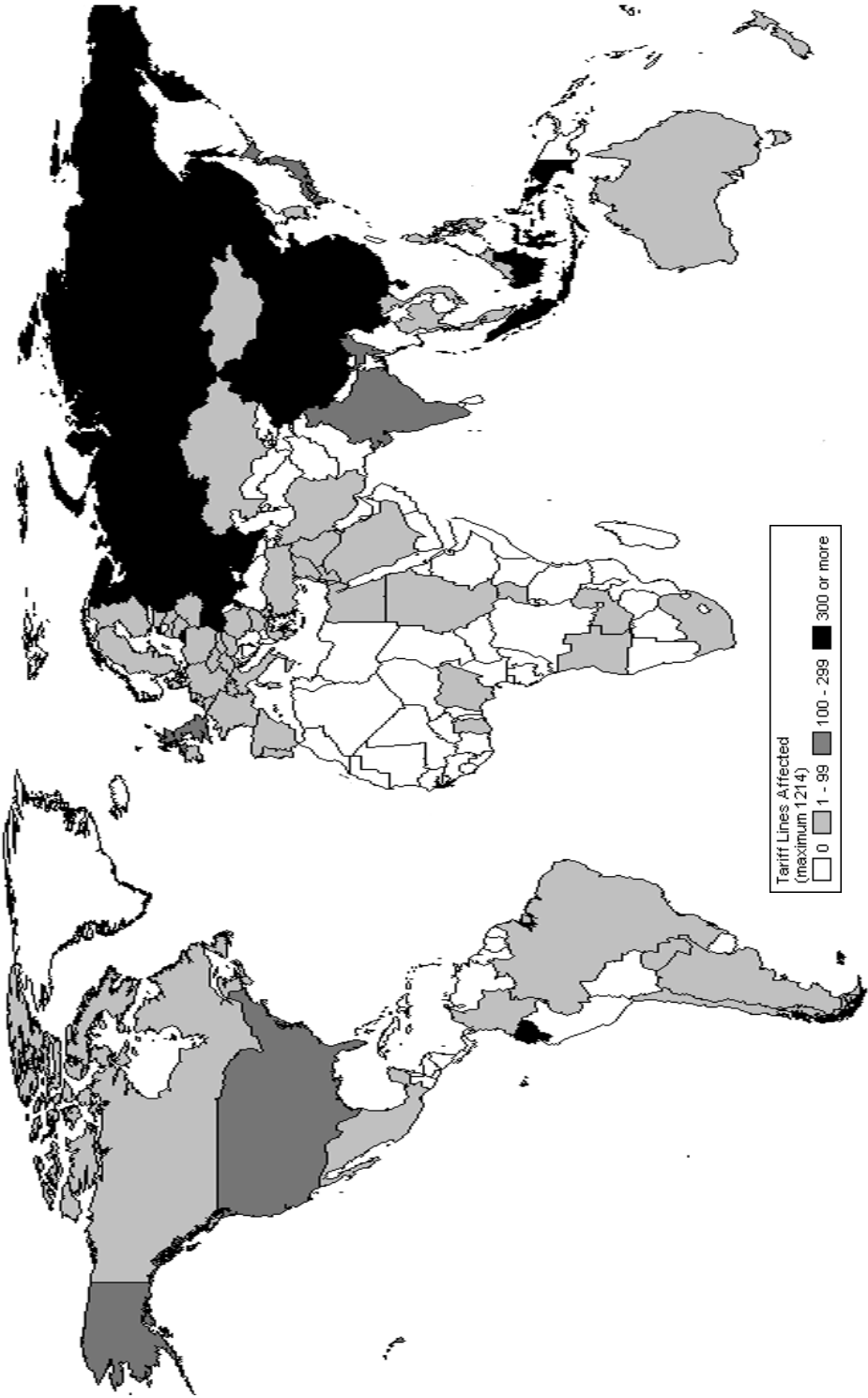
Map 1.1 Number of discriminatory measures implemented by each jurisdiction since the first G20 crisis related summit

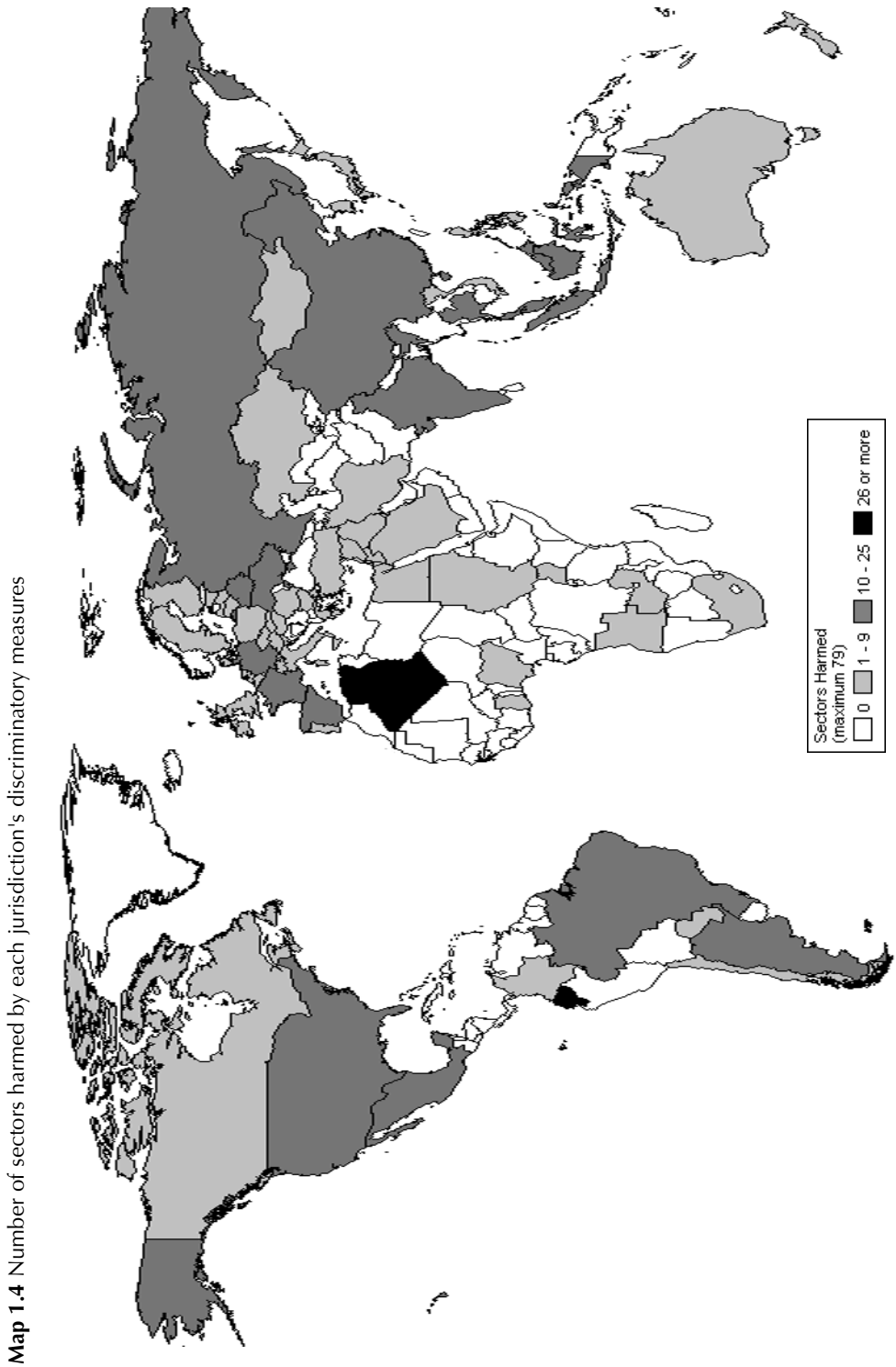


Map 1.2 Number of trading partners harmed by each jurisdiction's discriminatory measures

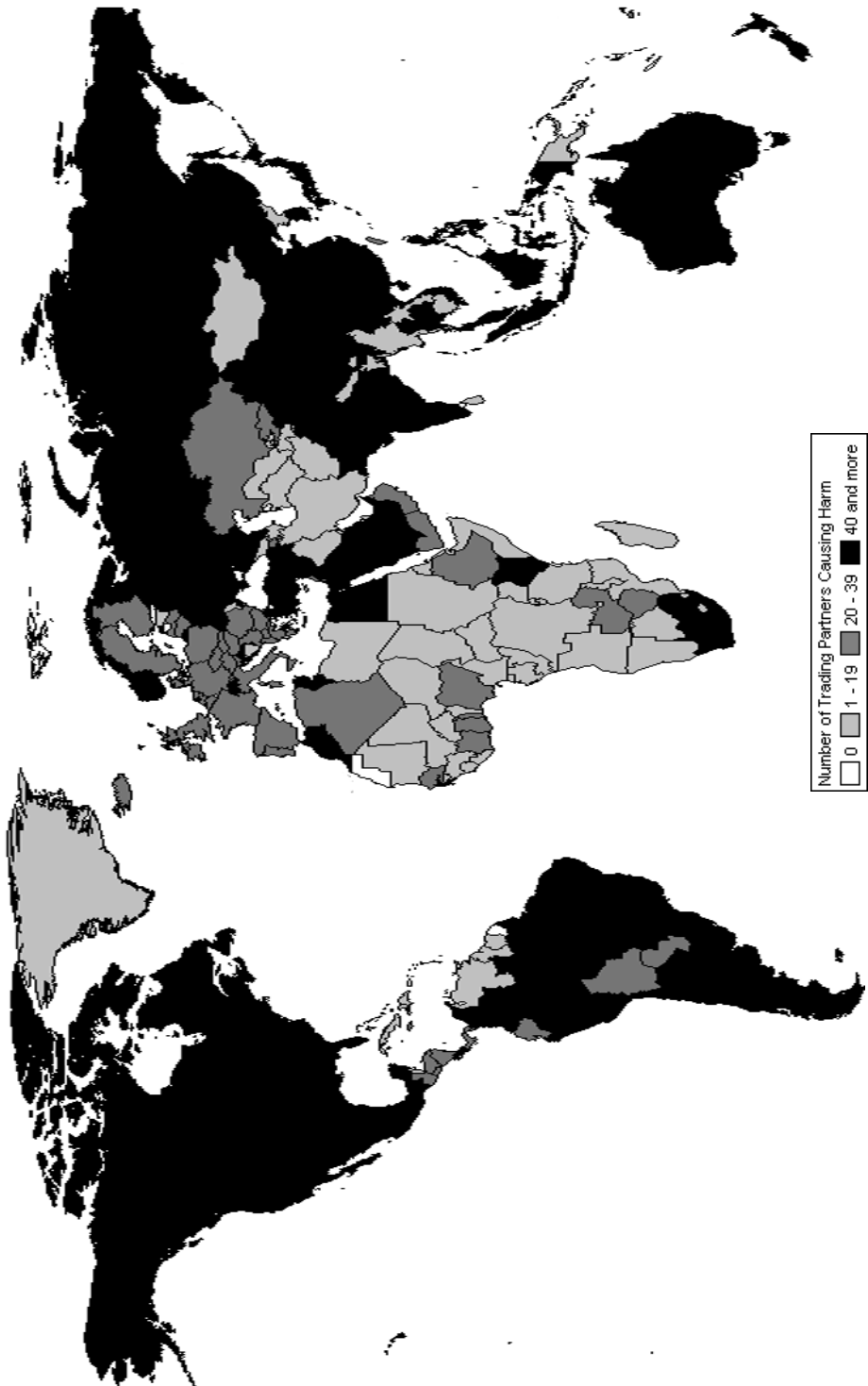


Map 1.3 Number of (4 digit) tariff lines harmed by each jurisdiction's discriminatory measures

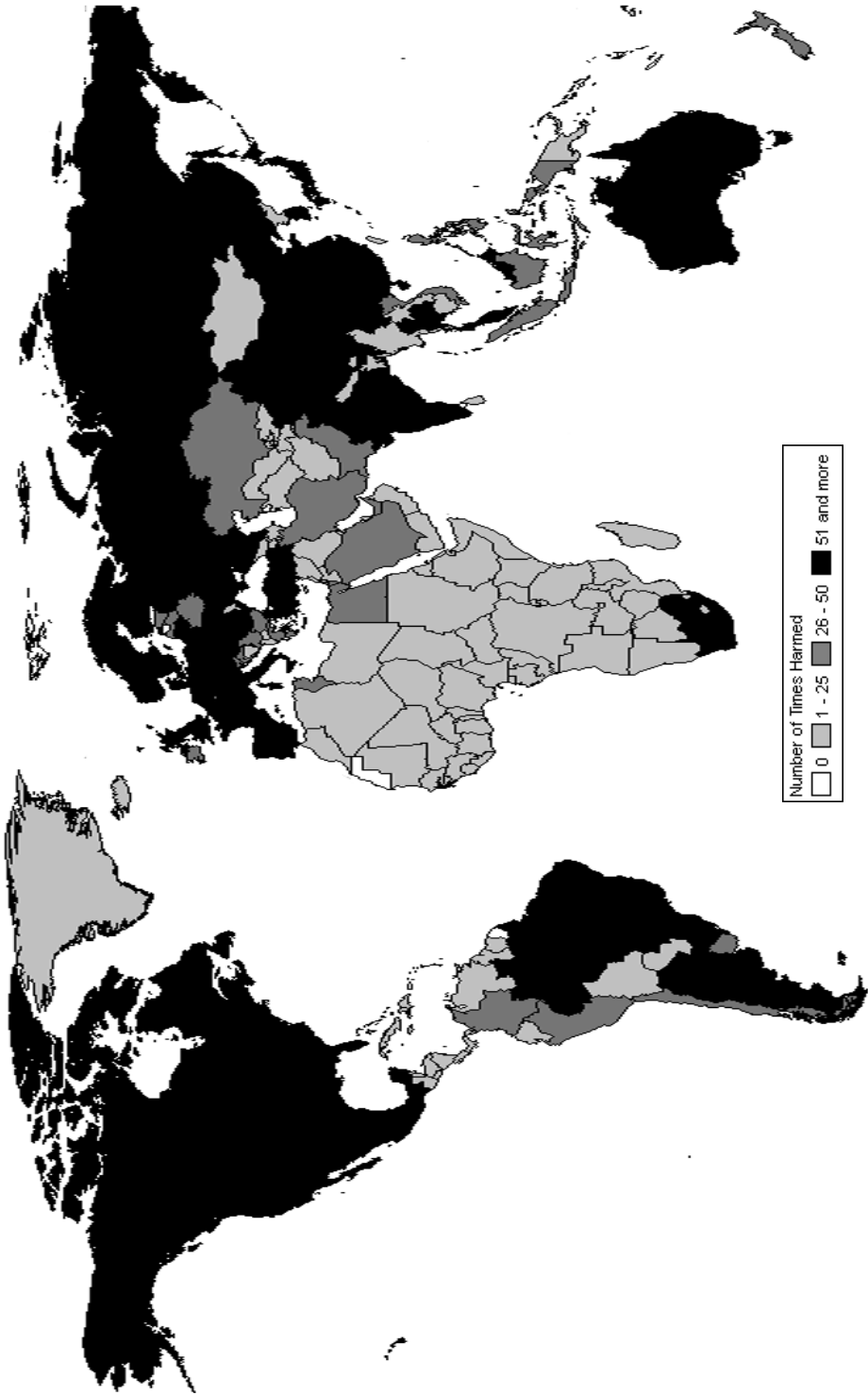




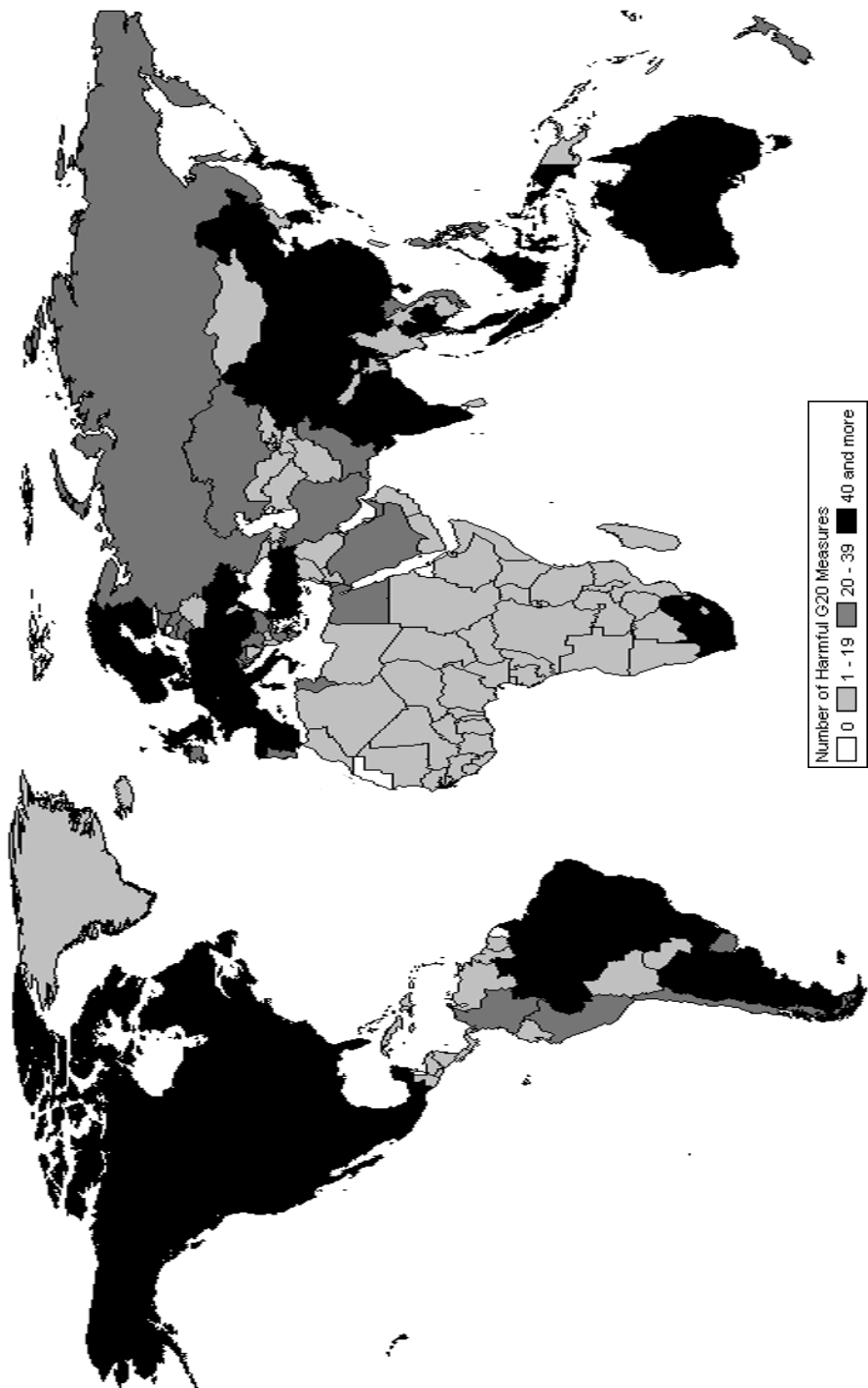
Map 1.5 Number of trading partners affecting a jurisdiction's commercial interests



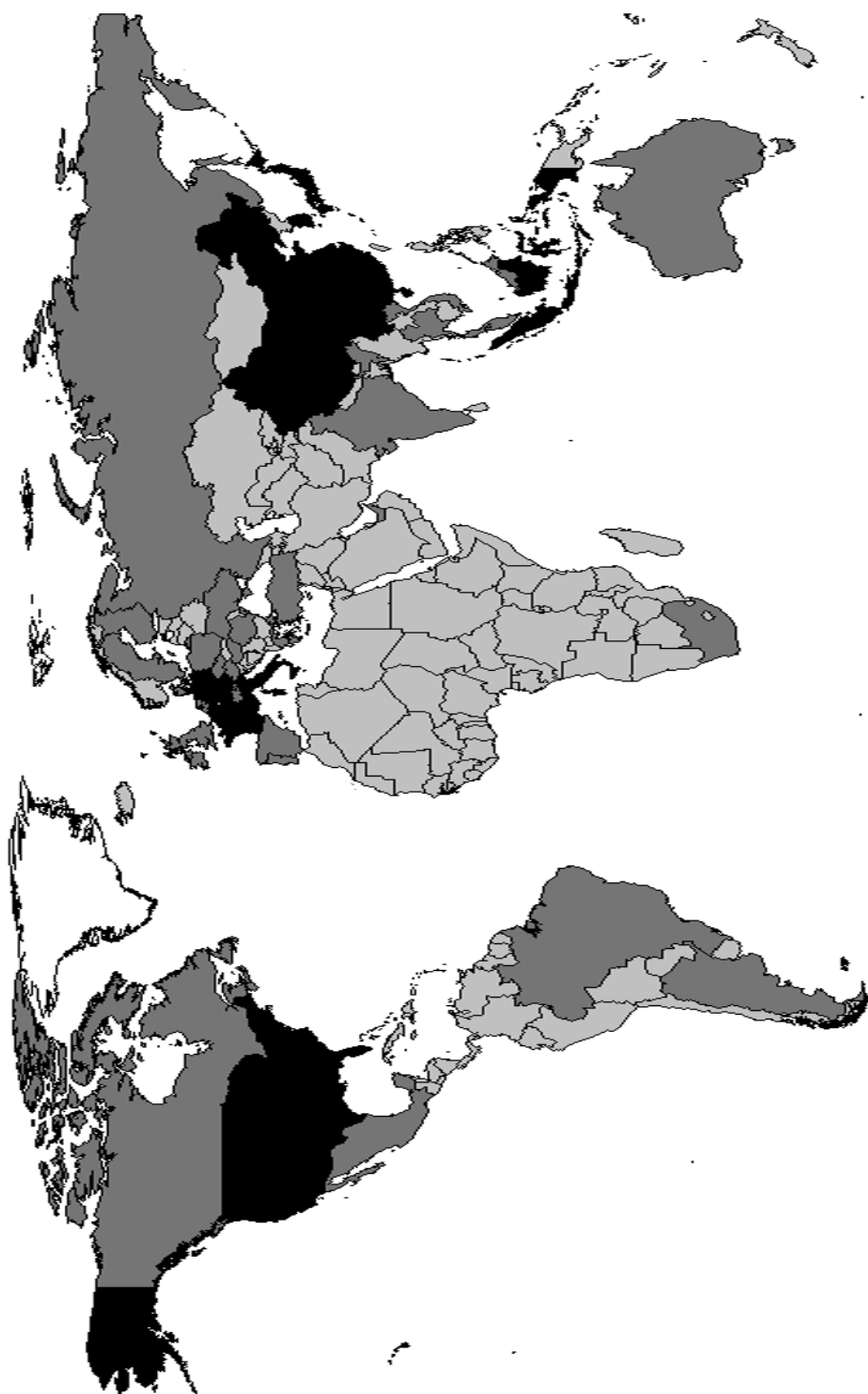
**Map 1.6** Number of times a jurisdiction's commercial interests are harmed by trading partners



Map 1.7 Number of harmful measures implemented by G20 countries affecting each jurisdiction



**Map 1.8** Number of pending discriminatory measures likely to harm a jurisdiction





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## **Section 1**

# **Global Overview and Perspectives on the Gulf Region**



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# The Global Overview: Has Stabilisation Affected The Landscape of Crisis-Era Protectionism?

**Simon J. Evenett**

*University of St. Gallen and CEPR*

The latest set of macroeconomic data from the International Monetary Fund suggest that many economies stabilised and began to recover in the second half of 2009 (IMF 2010). Merchandise exports are thought to have rebounded in the third quarter of 2009 too (IMF 2010, OECD 2010).<sup>1</sup> For sure there is considerable variation across economies; for some, this stabilisation marks the end of the beginning, for others it is the beginning of the end of the global economic crisis.

According to the IMF, the ongoing recovery is entirely due to policy responses:

"Driving the global rebound was the extraordinary amount of policy stimulus. Monetary policy has been highly expansionary, with interest rates down to record low levels in most advanced and in many emerging economies, while central bank balance sheets expanded to unprecedented levels in key advanced economies. Fiscal policy has also provided major stimulus in response to the deep downturn. Meanwhile, public support of the financial sector has been crucial in breaking the negative feedback loop between the financial and real sectors. At the same time, there are still few indicators that autonomous (not-policy-induced) private demand is taking hold, at least in advanced economies" (IMF 2010, pages 1-3).

The significance of this macroeconomic and financial market intervention for commercial policymaking is that the wide range of tools available to policymakers over the past year or so has diminished the resort to protectionism during this crisis (Eichengreen and Irwin 2009). If this logic holds true in 2010 then certain recent developments bode ill for the near term. Those developments include statements by leading central bankers to begin unwinding their support for the financial sector in the coming year and the growing pressure on governments from central banks, the bond markets, and in some nations elements of the electorate, to cut budget deficits, including limiting spending on bailouts and other subsidies.

Limitations on available alternative policy tools in 2010 may mean that pressures to "create" or "save" jobs and firms may manifest themselves in discrimination against foreign commercial interests. Consequently, if finance ministers and central bankers poorly design and execute their "exit strategies" then this year we'll probably find out whether the macroeconomic flexibility-cum-protectionism nexus cuts both ways.

A distinct but related matter is whether the stabilisation of national economies has begun to affect the propensity of governments to discriminate against foreign com-

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<sup>1</sup> Having said this, the available data for the fourth quarter of 2009 casts doubt on the sustainability of the export rebound witnessed in the third quarter of 2009 (see the information presented in *The Economist* 2010).

mercial interests and the form that that discrimination takes. With many more reports submitted by the GTA team in the past two months, this matter can now be examined in some detail and the purpose of this global overview is to do just that. The principal finding to date is that macroeconomic stabilisation has not been coupled with governments eschewing protectionism; nor have other established patterns of crisis-era protectionism altered much as economic prospects have improved.

This chapter will draw upon the findings of 713 completed investigations of state measures, conducted by the GTA team<sup>2</sup>, which might have implications for foreign commercial interests.. Information about those investigations, including a description of a state measure and identification of the products, sectors, and trading partners likely to have been, or likely to be, affected by the implementation of a state measure, are reported on the [www.globaltradealert.org](http://www.globaltradealert.org) website. Interested readers are referred to the detailed account in Evenett (2009) of the methodology employed by the GTA team.<sup>3</sup>

To focus ideas, in what follows the main findings from the GTA database are summarised, followed by the tables and figures that contain the raw data to substantiate each finding. Each finding described below is linked to at least one of those tables and figures. Readers are encouraged to augment the following account of contemporary protectionism with the comments made in and maps reproduced at the end of the Executive Summary of this Report.

The GTA's third Report was issued in mid-December 2009 and covered state measures announced from November 2008 to the end of November 2009. In terms of coverage this Report shares the same starting date as its predecessor; however, it includes reports through to 21 January 2010. Where instructive, comparisons between this Report's findings and its predecessor are noted. **Table 2.1** reveals that this fourth Report contains 103 more investigations than its predecessor - and, it should be noted that some of these investigations refer to state measures that were implemented before the end of November 2009.

### *Governments keep closing borders despite macroeconomic stabilisation*

The fourth quarter of 2009 is said to be when many economies stabilised and began to recover. Since the beginning of the fourth quarter in 2009 over 60 state measures have been implemented by governments worldwide that almost certainly or are likely to discriminate against foreign commercial interests. Whatever comfort has been afforded by macroeconomic stabilisation has not lead governments to eschew protectionism. See **Figure 2.2**.

Since our last report was published in December 2009, the number of beggar-thy-neighbour measures discovered (69) was nearly four times the number of benign or liberalising measures (18). Compared to our previous report, the average number of implemented, discriminatory measures reported per day has actually risen slightly--but so has the comparable average for benign measures. See **Table 2.1**.

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2 The GTA database includes reports on state measures that might have implications for foreign commercial interests, the latter being defined broadly to include trade flows, foreign investments, migrant populations, and intellectual property rights deployed abroad. To be included in the database a key decision about a measure must have been taken after the first crisis-related G20 summit meeting in Washington DC in November 2008.

3 Section 2 of Evenett (2009) contains the description of the GTA's methodology.

Overall, since the first G20 crisis-related summit in November 2008, the governments of the world have together implemented 305 beggar-thy-neighbour policy measures. Add in another 62 implemented measures that are likely to have harmed some foreign commercial interests, and the total reaches 367. **See Tables 2.1. and 2.2.**

Despite taking their no-protectionist pledge the G20 members have imposed 220 beggar-thy-neighbour policies since November 2008, an increase of 36 such policies over our previous report. The G20 countries also implemented 11 of the 14 benign or liberalising measures newly recorded in the GTA database. **See Tables 2.2 and 2.3.**

Typically, since the first G20 summit in November 2008, every other day a G20 government has broken the no-protectionism pledge. This propensity has not fallen with macroeconomic stabilisation. **See Table 2.3.**

While together the G20 governments were responsible for less than two-thirds of all state measures implemented worldwide since November 2008, over the same time-frame the G20 were collectively responsible for over three-quarters of beggar-thy-neighbour measures implemented worldwide. **See Tables 2.3 and Figure 2.1.**

*Reporting lags cloud the picture; with every report the protectionism uncovered in 2009 looks worse and worse*

In terms of raw numbers, there appears to be a reduction in the total number of 'almost certainly' and 'probably discriminatory' measures imposed in the second half of 2009 compared to the first half. Significant care is needed in interpreting this finding. **See Figure 2.2.**

Since our last report was compiled the GTA has found evidence of more harmful state measures that were imposed in the last quarter of 2008 and during 2009. A clear pattern emerges of quarter-by-quarter upward revisions in the number of discriminatory measures investigated by the GTA team. **See Figure 2.2.**

Previously the GTA reported that conservatively estimated, on average 85 discriminatory measures were imposed each quarter in 2009. For the first three quarters of 2009 the comparable rate is now estimated to be 100. Overall, the record for 2009 is much worse than previously thought; some initial assessments of protectionism in 2009 may have inadvertently overlooked the non-transparent nature of much crisis-era discrimination against foreign commercial interests.

Already 56 implemented state measures likely to harm foreign commercial interests have been identified in the fourth quarter of 2009, stacking the odds against ultimately finding that stabilisation led to lesser resort to protectionism. **See Figure 2.2.**

*The protectionism-in-the-pipeline has not shrunk*

Last time we reported that there were 188 suspicious protectionist measures in the pipeline<sup>4</sup>; now that total has risen to 198. If every one of these measures was eventually implemented it would be equivalent, at 2009 rates, to just over half a year's more protectionism. **See Figure 2.2.**

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4 For the purposes of this report (and the last one) the protectionist pipeline is said to include all those state measures that (i) have been publicly announced, (ii) that have yet to be implemented and (iii) upon examination are likely to harm foreign commercial interests. Such measures are classified amber in the GTA database until implemented, whereupon their classification may change (depending on the details about the potential discriminatory impact available at the time of implementation.)

*By now the top 10 most hit trading nations have each been harmed by over 100 beggar-thy-neighbour measures*

Since the first G20 summit in November 2008 China's commercial interests have been hit 160 times by foreign protectionist measures, the most of any trading nation. Only if the 27 members of the European Union are counted together, does any other jurisdiction come close to absorbing comparable harm (the EU 27 group being hit 152 times). **See Table 2.4.**

Other than China, the top 10 target jurisdictions hit by the most number of harmful foreign measures are all industrialised countries. Each of the top 10 targets has seen their commercial interests harmed by foreign state measures over 100 times during this crisis; a threshold crossed for the first time in this report. **See Table 2.4.**

Sixty-one trading partners have imposed measures harmful to Chinese commercial interests. Only the USA and Japan come close in terms of suffering at the hands of so many trading partners. **See Table 2.4.**

*Which nations have inflicted the most harm?*

Because protectionist acts can affect different numbers of products, sectors, and trading partners, there is no single metric to identify the worst offending nations. The GTA reports four indicators of harm.<sup>5</sup> Still, whether it is the number of harmful measures implemented, tariff lines affected, sectors affected, or trading partners affected, the Russian Federation remains in the top 5 worst offending nations. **See Table 2.5.**

On all four metrics, China is always in the top 10 worst offending nations. If the EU member states are counted as one, they too always appear in the top 10. (Compared to the previous report, Indonesia no longer retains this dubious distinction.) **See Table 2.5.**

For three of the four indicators of harm, Germany and the United Kingdom are always in the top 10 worst offending nations. (In the last report India shared this dubious distinction too; not now.) **See Table 2.5.**

The Russian Federation has the dubious distinction of raising trade barriers against the most tariff lines (40 percent of all product categories.) Still, Algeria takes the prize for measures that harm foreign commercial interests in the largest number of economic sectors; taken together the European Union for harming the most trading partners (149). **See Table 2.5.**

When nations are ranked by the number of trading partners their state measures have harmed, every one of the top 10 worst offenders has hurt the commercial interests of over 100 nations. Given the conservative methodology used to identify the harmed jurisdictions<sup>6</sup>, this finding indicates the scale of the adverse impact of many governments' crisis-era state measures. **See Table 2.5.**

*A repeat of the 1930s protectionism has - to date - been avoided*

The fact that only 5 jurisdictions have taken measures that affect more than a quarter of all product categories demonstrates that the across-the-board measures seen in

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<sup>5</sup> Comparisons of the rankings of countries on the basis of these four rankings shows a remarkably high degree of correlation.

<sup>6</sup> In short, identification here is on the basis of an existing non-trivial trade, investment, or other commercial flow, not indicators of potential harm.

the 1930s has not been repeated in the past year. Of course, how appropriate it is to compare the protectionism undertaken in the past 15 months with that imposed over a decade is another matter. **See Table 2.5.**

*Which types of beggar-thy-neighbour policies are used the most?*

In the year since the first G20 crisis-summit, bailouts and state aids are the most frequent source of discrimination against other nations' commercial interests. With the forty discriminatory bailouts identified since the publication of the Third Report, the percentage of all discriminatory measures that were bailouts has risen to 37%. Less than half of those bailouts relate to the financial sector; it is a mistake to associate the discriminatory bailouts of the past year solely with banks and insurance companies and the preservation of financial stability.<sup>7</sup> **See Table 2.6. and Figure 2.3.**

The implementation of discriminatory trade defence instruments is the second most common form of protectionism--although increasingly a distant second. Still, given that a large number of trade remedy investigations are ongoing, in the next 12 months it would not be surprising if the difference between the top two most used measures narrows. **See Table 2.6. and Figure 2.4.**

Since our last report was published, bailouts, trade defence measures, public procurement measures, and migration measures account for the overwhelming majority of new discriminatory state measures that the GTA team has investigated. **See Table 2.6.**

Tariff increases still account for only one in seven of the total number of discriminatory state measures imposed in the current global economic downturn. This calls into question how representative of contemporary protectionism the much-studied, easy-to-measure, and typically transparent tariff increase actually is. **See Table 2.6. and Figure 2.3.**

Export taxes or restrictions, bailouts, export subsidies, 'buy national' policies, tariff measures, plus a rag-bag of non-tariff barriers imposed since November 2008 are each conservatively estimated to have harmed over 100 countries' commercial interests. **See Table 2.6.**

*Which sectors are most affected by protectionism?*

Setting state measures that benefit the financial sector to one side, like its predecessor this Report too confirms a finding in the second GTA report. Namely, despite all the talk about measures to bolster green industries, innovation, and future growth poles of the economy, the great majority of the discrimination is in favour of domestic firms in smokestack, declining industries and in agriculture. **See Table 2.7.**

Looking ahead, the basic metals and basic chemical sectors could be affected by over 30 pending measures. Should this come to pass, then over the next year or so both sectors may match the financial sector as the principal sectors most affected by contemporary era protectionism. **See Table 2.7.**

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<sup>7</sup> This latter finding can be confirmed by going on to the "Advanced Search" page of the GTA website and searching for the bailout measures that do not affect sector 81, namely, financial intermediation services and auxiliary services thereof.

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**Table 2.1** Total number of state measures reported in the GTA database

| Statistic                                      | This report<br>(January 2010) |                                                               | Increase from previous report<br>(December 2009) |                                                               |
|------------------------------------------------|-------------------------------|---------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------|
|                                                | Total                         | Total except unfair<br>trade and safeguards<br>investigations | Total                                            | Total except unfair<br>trade and safeguards<br>investigations |
| Total number of<br>measures in<br>GTA database | 713                           | 476                                                           | 103                                              | 91                                                            |
| Total number of measures<br>coded green        | 88                            | 78                                                            | 18                                               | 17                                                            |
| Total number of measures<br>coded amber        | 260                           | 99                                                            | 14                                               | 9                                                             |
| Total number of measures<br>coded red          | 365                           | 299                                                           | 71                                               | 65                                                            |

## How does the GTA colour code measures?

| Colour code | Criteria                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Red         | (i) The measure has been implemented and almost certainly discriminates against foreign commercial interests.                                                                                                                                                                                                                                                                                 |
| Amber       | (i) The measure has been implemented and may involve discrimination against foreign commercial interests; OR<br>(ii) The measure has been announced or is under consideration and would (if implemented) almost certainly involve discrimination against foreign commercial interests.                                                                                                        |
| Green       | (i) The measure has been announced and involves liberalization on a non-discriminatory (i.e., most favored nation) basis; OR<br>(ii) The measure has been implemented and is found (upon investigation) not to be discriminatory; OR<br>(iii) The measure has been implemented, involves no further discrimination, and improves the transparency of a jurisdiction's trade-related policies. |

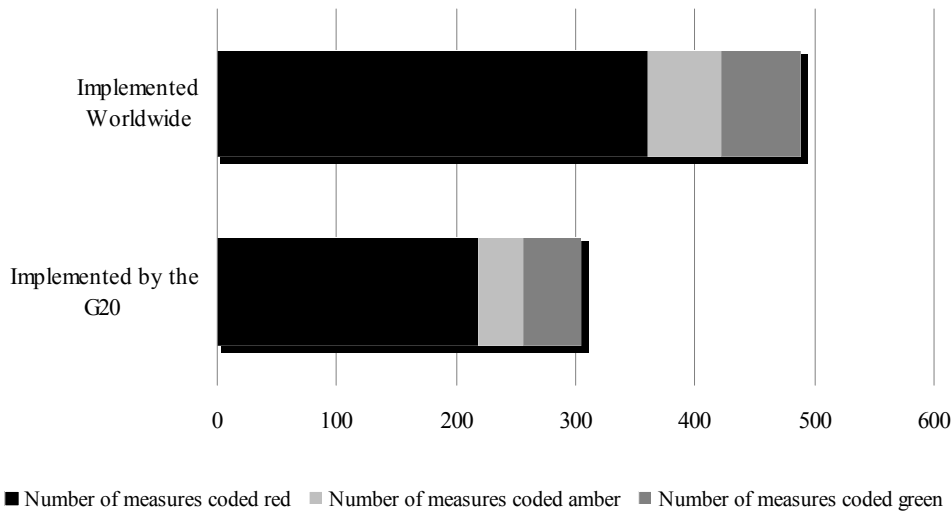
**Table 2.2** Measures implemented since first crisis-related G20 summit in November 2008, totals for all jurisdictions and change since last report

| Statistic                                                                                 | This report<br>(January 2010) |                                                         | Increase from previous report<br>(December 2009) |                                                         |
|-------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------|
|                                                                                           | Total                         | Total except unfair trade and safeguards investigations | Total                                            | Total except unfair trade and safeguards investigations |
| Total number of measures in GTA database                                                  | 493                           | 396                                                     | 88                                               | 77                                                      |
| Total number of measures coded green                                                      | 66                            | 60                                                      | 14                                               | 13                                                      |
| Total number of measures coded amber                                                      | 62                            | 37                                                      | 6                                                | 1                                                       |
| Total number of measures coded red                                                        | 305                           | 299                                                     | 69                                               | 63                                                      |
| Total number of 4-digit tariff lines affected by almost certainly discriminatory measures | 1214                          | 1214                                                    | 0                                                | 0                                                       |
| Total number of 2-digit sectors affected by almost certainly discriminatory measures      | 79                            | 79                                                      | 0                                                | 0                                                       |
| Total number of trading partners affected by almost certainly discriminatory measures     | 233                           | 233                                                     | 0                                                | 0                                                       |

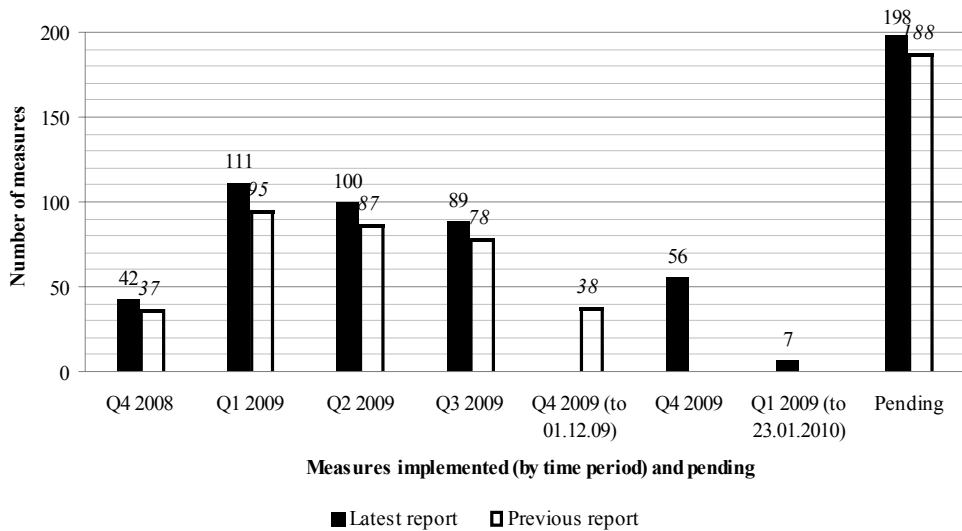
**Table 2.3** Measures implemented by G20 countries in the year since the first crisis-related G20 summit in November 2008, totals for all G20 jurisdictions and change since last report

| Statistic                                                                                 | This report<br>(January 2010) |                                                         | Increase from previous report<br>(December 2009) |                                                         |
|-------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------|
|                                                                                           | Total                         | Total except unfair trade and safeguards investigations | Total                                            | Total except unfair trade and safeguards investigations |
| Total number of measures in GTA database                                                  | 306                           | 221                                                     | 53                                               | 42                                                      |
| Total number of measures coded green                                                      | 48                            | 43                                                      | 11                                               | 11                                                      |
| Total number of measures coded amber                                                      | 38                            | 17                                                      | 6                                                | 1                                                       |
| Total number of measures coded red                                                        | 220                           | 161                                                     | 36                                               | 31                                                      |
| Total number of 4-digit tariff lines affected by almost certainly discriminatory measures | 978                           | 968                                                     | 1                                                | 1                                                       |
| Total number of 2-digit sectors affected by almost certainly discriminatory measures      | 58                            | 58                                                      | 0                                                | 0                                                       |
| Total number of trading partners affected by almost certainly discriminatory measures     | 196                           | 196                                                     | 0                                                | 0                                                       |

**Figure 2.1.** The G20 members implement a higher share of beggar-thy-neighbor policies than other countries.



**Figure 2.2.** If the measures in the pipeline are implemented, the number of harmful measures will rise by more than half



In Figure 2.2, a harmful measure is taken to be one which has been implemented since November 2008 and is almost certainly discriminatory (coded red) or likely to be discriminatory (coded amber).

**Table 2.4.** Top 10 biggest targets of discriminatory measures.

| Target      | Number of discriminatory measures imposed on target |                                           | Number of trading partners imposing discriminatory measures |                                           | Number of pending measures, which if implemented, would harm target too |                                           |
|-------------|-----------------------------------------------------|-------------------------------------------|-------------------------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------|
|             | Increase<br>This report<br>(January<br>2010)        | from last<br>report<br>(December<br>2009) | Increase<br>This report<br>(January<br>2010)                | from last<br>report<br>(December<br>2009) | Increase<br>This report<br>(January<br>2010)                            | from last<br>report<br>(December<br>2009) |
| China       | 160                                                 | 14                                        | 61                                                          | 3                                         | 111                                                                     | 2                                         |
| EU27        | 152                                                 | 12                                        | 43                                                          | 4                                         | 57                                                                      | 2                                         |
| USA         | 127                                                 | 9                                         | 51                                                          | 2                                         | 31                                                                      | 1                                         |
| Germany     | 123                                                 | 8                                         | 36                                                          | 2                                         | 42                                                                      | 1                                         |
| France      | 111                                                 | 5                                         | 36                                                          | 2                                         | 34                                                                      | 1                                         |
| Belgium     | 104                                                 | 5                                         | 33                                                          | 2                                         | 31                                                                      | 0                                         |
| Japan       | 102                                                 | 3                                         | 49                                                          | 1                                         | 31                                                                      | 0                                         |
| UK          | 102                                                 | 8                                         | 34                                                          | 3                                         | 28                                                                      | 0                                         |
| Netherlands | 101                                                 | 4                                         | 35                                                          | 2                                         | 27                                                                      | 1                                         |
| Italy       | 100                                                 | 7                                         | 32                                                          | 2                                         | 36                                                                      | 0                                         |

**Table 2.5** Which countries have inflicted the most harm?

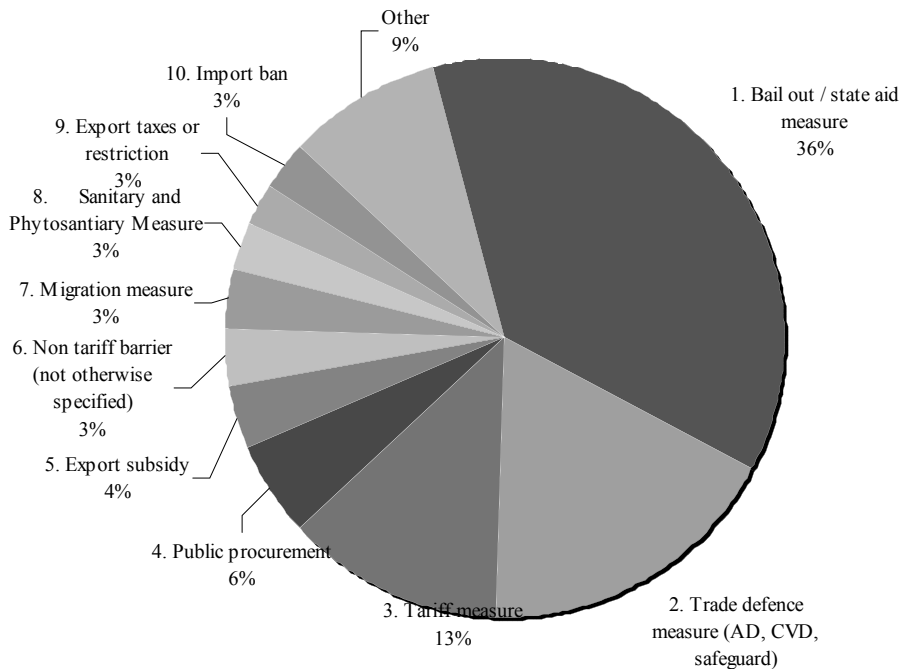
| Rank | Metric, Country in specified rank, Number                              |                                                                                                                  |                                                                                        |                                                                                                 |
|------|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
|      | Ranked by number of (almost certainly) discriminatory measures imposed | Ranked by the number of tariff lines (product categories) affected by (almost certainly) discriminatory measures | Ranked by the number of sectors affected by (almost certainly) discriminatory measures | Ranked by the number of trading partners affected by (almost certainly) discriminatory measures |
| 1.   | EU27 (123)                                                             | Russian Federation (486)                                                                                         | Algeria (54)                                                                           | EU27 (149)                                                                                      |
| 2.   | Russian Federation (42)                                                | Ukraine (388)                                                                                                    | EU27 (35)                                                                              | India (141)                                                                                     |
| 3.   | Argentina (25)                                                         | China (331)                                                                                                      | Ecuador (30)                                                                           | China (138)                                                                                     |
| 4.   | Germany (24)                                                           | Ecuador (316)                                                                                                    | Indonesia (25)                                                                         | Russian Federation (132)                                                                        |
| 5.   | UK (19)                                                                | Indonesia (315)                                                                                                  | Russian Federation (25)                                                                | Argentina (129)                                                                                 |
| 6.   | Italy (15)                                                             | EU27 (231)                                                                                                       | Mexico (24)                                                                            | Indonesia (124)                                                                                 |
| 7.   | China (13)                                                             | India (210)                                                                                                      | Belarus (23)                                                                           | UK (122)                                                                                        |
| 8.   | Hungary (13)                                                           | Japan (134)                                                                                                      | China (23)                                                                             | USA (120)                                                                                       |
| 9.   | Spain (13)                                                             | UK (132)                                                                                                         | Ukraine (23)                                                                           | France (118)                                                                                    |
| 10.  | Brazil (12)                                                            | USA (124)                                                                                                        | Germany (21)                                                                           | Germany (116)                                                                                   |

*Note:* There is no single metric to evaluate harm. Different policy measures affect different numbers of products, economic sectors, and trading partners. GTA reports four measures of harm.

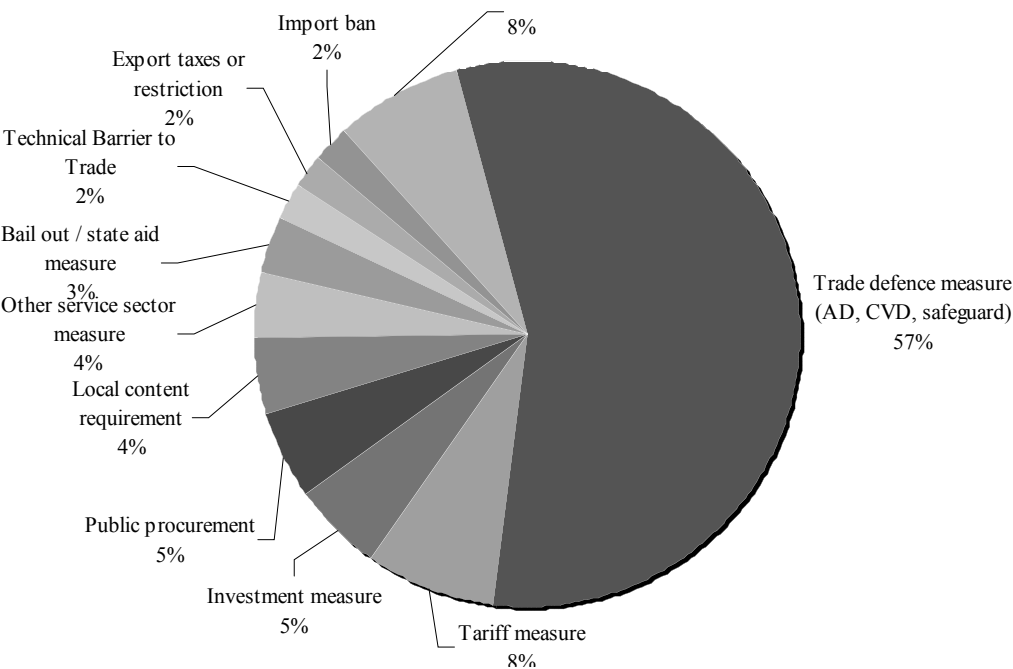
**Table 2.6.** Ten most used state measures to discriminate against foreign commercial interests since the first G20 crisis meeting  
*Ranked by number of discriminatory measures imposed.*

| State measure                              | Number of discriminatory (red) measures imposed |                                           | Number of measures implemented (red amber, or green) |                                           | Number of jurisdictions that imposed these discriminatory measures |                                           | Number of jurisdictions harmed by these discriminatory measures |                                           |
|--------------------------------------------|-------------------------------------------------|-------------------------------------------|------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------------------------|-------------------------------------------|
|                                            | This report (January 2010)                      | Increase from last report (December 2009) | This report (January 2010)                           | Increase from last report (December 2009) | This report (January 2010)                                         | Increase from last report (December 2009) | This report (January 2010)                                      | Increase from last report (December 2009) |
| Bail out / state aid measure               | 141                                             | 40                                        | 144                                                  | 38                                        | 41                                                                 | 2                                         | 177                                                             | 1                                         |
| Trade defence measure (AD, CVD, safeguard) | 67                                              | 5                                         | 98                                                   | 11                                        | 48                                                                 | 1                                         | 58                                                              | n.a.                                      |
| Tariff measure                             | 47                                              | 3                                         | 93                                                   | 10                                        | 21                                                                 | 2                                         | 122                                                             | 0                                         |
| Public procurement                         | 21                                              | 7                                         | 25                                                   | 7                                         | 15                                                                 | 4                                         | 133                                                             | 0                                         |
| Export subsidy                             | 14                                              | 0                                         | 16                                                   | 0                                         | 33                                                                 | 0                                         | 145                                                             | 1                                         |
| Non tariff barrier (unspecified)           | 13                                              | 1                                         | 22                                                   | 2                                         | 9                                                                  | 1                                         | 109                                                             | 0                                         |
| Migration measure                          | 12                                              | 5                                         | 17                                                   | 7                                         | 12                                                                 | 5                                         | 46                                                              | 15                                        |
| Sanitary and Phytosanitary Measure         | 111                                             | 0                                         | 12                                                   | 0                                         | 9                                                                  | 0                                         | 23                                                              | 0                                         |
| Export taxes or restriction                | 10                                              | 2                                         | 18                                                   | 2                                         | 11                                                                 | 1                                         | 147                                                             | 0                                         |
| Import ban                                 | 10                                              | 3                                         | 9                                                    | 1                                         | 8                                                                  | 2                                         | 42                                                              | 0                                         |

**Figure 2.3** Top 10 implemented measures used to discriminate against foreign commercial interests since the first G20 crisis meeting.



**Figure 2.4** Top 10 pending measures that target foreign commercial interests.



**Table 2.7** Top 20 sectors most affected by discriminatory measures

| CPC code, Affected Sector                                                    | Number of discriminatory (red) measures affecting commercial interests in this sector | Number of implemented measures affecting specified sector | Number of jurisdictions implementing measures affecting specified sector and classified as red | Number of pending measures affecting specified sector |
|------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| 81 ( Financial intermediation services and auxiliary services therefor)      | 60                                                                                    | 64                                                        | 20                                                                                             | 2                                                     |
| 44 ( Special purpose machinery)                                              | 36                                                                                    | 59                                                        | 20                                                                                             | 13                                                    |
| 41 ( Basic metals)                                                           | 33                                                                                    | 52                                                        | 41                                                                                             | 33                                                    |
| 49 ( Transport equipment)                                                    | 32                                                                                    | 52                                                        | 15                                                                                             | 18                                                    |
| 21 ( Meat, fish, fruit, vegetables, oils and fats)                           | 30                                                                                    | 44                                                        | 19                                                                                             | 8                                                     |
| 42 ( Fabricated metal products, except machinery and equipment)              | 29                                                                                    | 45                                                        | 16                                                                                             | 19                                                    |
| 01 ( Products of agriculture, horticulture and market gardening)             | 28                                                                                    | 39                                                        | 21                                                                                             | 11                                                    |
| 23 ( Grain mill products, starches and starch products; other food products) | 28                                                                                    | 42                                                        | 43                                                                                             | 12                                                    |
| 34 ( Basic chemicals)                                                        | 25                                                                                    | 43                                                        | 12                                                                                             | 33                                                    |
| 22 ( Dairy products)                                                         | 24                                                                                    | 30                                                        | 40                                                                                             | 8                                                     |
| 02 ( Live animals and animal products)                                       | 22                                                                                    | 30                                                        | 44                                                                                             | 6                                                     |
| 38 ( Furniture; other transportable goods n.e.c.)                            | 22                                                                                    | 30                                                        | 15                                                                                             | 7                                                     |
| 27 ( Textile articles other than apparel)                                    | 21                                                                                    | 33                                                        | 14                                                                                             | 11                                                    |
| 36 ( Rubber and plastics products)                                           | 19                                                                                    | 30                                                        | 16                                                                                             | 10                                                    |
| 47 ( Radio, television and communication equipment and apparatus)            | 19                                                                                    | 30                                                        | 10                                                                                             | 4                                                     |
| 43 ( General purpose machinery)                                              | 18                                                                                    | 31                                                        | 11                                                                                             | 9                                                     |
| 28 ( Knitted or crocheted fabrics; wearing apparel)                          | 17                                                                                    | 28                                                        | 12                                                                                             | 4                                                     |
| 46 ( Electrical machinery and apparatus)                                     | 17                                                                                    | 25                                                        | 12                                                                                             | 8                                                     |
| 29 ( Leather and leather products; footwear)                                 | 16                                                                                    | 25                                                        | 12                                                                                             | 3                                                     |
| 37 ( Glass and glass products and other non-metallic products n.e.c.)        | 16                                                                                    | 27                                                        | 13                                                                                             | 19                                                    |



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# **GCC Industrial Exports and the Controversy Over Domestic Energy and Feedstock Pricing**

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Domestic pricing of energy and feedstock in the oil and gas exporting countries has caused considerable controversy in international trade negotiations. The issue has been hotly debated in the context of WTO negotiations; it has delayed the accession of Saudi Arabia and is one reason still delaying the accession of Russia. It has however not been much of a problem with respect to the other GCC countries. In the context of the never ending negotiations for an FTA between the EU and the GCC, this remains a key stumbling block.

The countries of the Gulf Cooperation Council have leveraged their natural resources to integrate downstream in the value chain, investing in petrochemical and in other energy-intensive industries. The latter include cement, iron and steel, ceramics, glass and aluminium. Controversy is especially acute for petrochemicals and aluminium (which is specifically electricity intensive), less so for the other industries, for which the GCC countries remain net importers. For petrochemicals and aluminium, the GCC countries have become major exporters and current investment projects promise to further reinforce their position.

International competitors complain that the availability of feedstock and/or energy inputs for transformation industries at "subsidised" prices distort international competition. Domestic prices to industrial users are considered to be "subsidised" because they are below international prices; however this qualification is incorrect from the point of view of economic analysis. Prices may be considered to be subsidised if they are below cost, and some hidden or overt loss occurs that must be compensated somehow (the subsidy). But the international prices of oil, gas and petroleum products include a very significant component of rent, which originates out of the fact that production costs in the region are below the cost of the global marginal barrel of oil or cubic meter of gas. Hence, domestic prices can be lower than international prices and still not be subsidised, as long as costs are covered. In this case, the government simply forfeits a portion of the rent in domestic sales, but does not subsidise domestic producers.

In order to understand whether the GCC countries are or are not subsidising their domestic industry, it is then crucially important to discuss whether current prices are above or below cost. A first objective of this paper is to explain how defining the appropriate concept of cost is much more complicated than is normally perceived - and the relevant concept of cost may vary depending on circumstances. This is relevant not just from the point of view of international trade negotiations, but also from the point of view of the sustainability of the GCC development model. Indeed, if we were to find that GCC industry is competitive only because it is subsidised, we should

conclude that the regional development model is not sustainable.

A second objective is to explore the peculiar nature of competition in the petrochemical industry, where the key to competitiveness is in the ability to add large increments to production capacity and displace smaller, higher cost plants. In other words, the competition is for new capacity, and once that is "captured" the country acquires international competitiveness. Therefore, countries compete to attract foreign investment in new projects, and feedstock supply conditions (not just price) are a tool of this competition.

The paper is organised as follows: in a first section we contextualise the use of energy and feedstock prices as a subset of industrial policies that are common practice in all countries. The point is to show that the GCC countries do not engage in some especially distortionary practices. In a second section we discuss several concepts of cost and which is most appropriate depending on the circumstances. In a third section we discuss the relevance of alternative concepts of costs for each of the four key product categories that are used as feedstock or sources of energy for industrial transformation, namely: natural gas; crude oil; refined oil products; and electricity. In a fourth section, we discuss the nature of competition in the petrochemical industry and the role feedstock prices play. The fifth section concludes.

## **1. The issue**

The use of incentives or disincentives as a tool of industrial policy is common practice in all economies, developed and developing. Governments influence relative prices through higher or lower taxation; through the provision of specific inputs, such as land or infrastructure services, frequently at less than "market" prices; and through access to privileged credit facilities, with terms that would not otherwise be available from any commercial institution.

In this context, it is hardly surprising that developing countries striving to industrialise and diversify their economies would resort to price signals as tools to promote their developmental objectives. The provision of facilities, such as industrial parks and transportation facilities, or favourable credit conditions for projects deemed to contribute to the development objectives, is standard practice. Any checklist of the "investment climate" of a country will include consideration of the availability of tax holidays, infrastructure and other forms of support on the part of the government to gauge the "attractiveness" of investing in the country concerned. Behind this approach there is the implicit or explicit assumption that in a globalised world economy, where goods and services move rather freely across borders, the decision to locate a project in one country or the other is one that the investor can make freely, and seek for the best conditions on offer. In other words, we live in a world where governments actively compete to attract investment and use a panoply of tools to achieve this goal.

The GCC countries of course are no exception, as industrialisation and diversification of the national economy is a key goal for all of them. Their competitive approach to attracting foreign direct investment has become considerably more sophisticated over time, with several GCC members climbing the ladder of international rankings of investment climate.

Pricing of energy inputs to industrial users should be viewed in this context. It is quite natural that a country possessing a potential competitive advantage in the form of availability of energy inputs should try and leverage this advantage to promote economic growth and diversification.

Administrative control of energy prices - oil products, natural gas and electricity - is common practice in numerous developing countries, both net importers and exporters. Generally this is done in the context of fighting inflation and preserving the purchasing power of poorer citizens with respect to basic necessities.

In the oil importing countries, such policies frequently lead to consumer prices that are below import prices and refining costs, hence the need for explicit subsidies to cover the losses of private or state-owned distributors and refiners. In these cases, export prohibitions also are imposed, that is products bought at cheaper domestic prices cannot be exported legally.

In the oil exporting countries, oil products are generally sold at prices that are well below the international price, leading to the accusation that domestic prices are "subsidised". However, it is not at all clear that this is the case. Prices would be "subsidised" if they were below cost: but international prices include a very substantial component of rent above cost. There is no reason why the oil producing countries should forfeit the potential rent that they can receive from the international market; but it is less clear that the governments should exact the same rent from domestic consumers.

It should be noted that the issue arises exclusively because crude oil and products are relatively easy to export and are in fact largely exported - which leads to the differentiation of domestic from export prices. Were domestic energy inputs not available for export, the price advantage to domestic industry would appear to be quite natural - and we have examples of this in the low cost of electricity to Norwegian or Canadian aluminium smelters, thanks to the availability of hydro power. But if exports are technically feasible, the government is not expected to prohibit or limit the export of raw materials in order to encourage local transformation.

## **2. Prices and costs**

In judging the appropriateness of GCC energy pricing policies attention should be given to whether prices cover costs. But what is the relevant concept of cost? The answer is complex and may vary depending on circumstances.

We may distinguish the following alternative definitions of cost:

- Average cost: this is the total cost of producing a specific product divided by the total volume produced. The total cost would include both investment and direct costs. It is the most straightforward concept of cost, and rarely the most relevant. It also suffers from ambiguities linked to the assessment of capital costs, and the allocation of costs in the case of joint products.
- o Capital costs may be assessed at the historical or replacement level: the former is what has actually been paid; the latter is what would need to be paid if the investment were to be made today. As investment costs normally increase with time, replacement cost may be significantly higher than historical cost. The use of replacement cost may be more relevant for

sustainability, because it refers to the cost of recreating capacity today if it were lost. Because oil and gas are wasting assets, capacity is constantly eroded and investment is needed to maintain the same.

- o Joint products are the norm in the oil industry. Oil is produced in association with NGLs and almost invariably also gas - ethane and methane. So, what is the cost of producing oil, what is the cost of producing NGLs, what is the cost of producing gas? We may consider that the most important product, that on which production is scaled, is oil, and all the cost should be assessed to oil. In this case, NGLs and gas are viewed as by-products which cost essentially nothing, or at most the cost of the infrastructure which is needed to gather and distribute them to the final users. This view is reinforced when we consider that gas is flared in the atmosphere in many oil producing countries, and the GCC countries are the exception rather than the norm in having almost completely eliminated gas flaring and valorised the gas.
- Marginal cost: this is the cost of producing one additional barrel of oil or cubic metre of gas. If the oil field has been developed and capacity to produce an incremental barrel already exists, then the marginal cost will include only the direct cost and no capital cost at all. Such marginal cost is bound to be very small. However, if existing capacity is fully utilised and a new field has to be developed or additional investment made in an existing field to increase production, the marginal cost may be very high. For gas, the marginal cost will depend not only on whether capacity exists or has to be created, but also on the utilisation that is made of the gas: if a proportion of the gas produced in association with oil is reinjected in the field to maintain pressure, the marginal cost of the additional cubic metre may be negative, because it would be a cubic metre not reinjected, and reinjection has a direct cost of its own. There would be an opportunity cost - in terms of lost pressure or having to inject more water or adopt other recovery methods - but that is a different cost concept.
- Opportunity cost: this is the revenue lost by selling the oil or gas at a price lower than the maximum which the market would bear. As such, opportunity cost is not at all linked to the cost of production, but rather depends on market circumstances. If the market is "saturated" and the alternative to selling the barrel at a lower price would be to keep it in the ground (which means that this barrel would only be produced much later, when the country's production is in decline and cannot be maintained at the desired level) then the opportunity cost is very close to zero.

### **3. Assessing the cost of energy and feedstock**

How therefore are we going to assess the cost of production of oil or gas in the GCC countries? The matter is certainly not straightforward, and conflicting conclusions are possible depending on circumstances.

#### **3.1. Natural gas**

Let us first consider natural gas. Natural gas is produced in association with oil or in fields containing gas only (with a component of NGLs or condensate diluted in the gas). Associated gas used to be considered as worthless by the companies, and it has

acquired value only thanks to the investment which has gone into separating, treating, collecting and redistributing the gas. These costs must obviously be allocated to the gas stream, but otherwise associated gas may legitimately be considered as a free by-product.

That said, we have situations in which the associated gas or dry gas produced in association with NGLs is not sufficient to meet demand, and additional capacity must be developed which may be considerably more expensive. An example in point is Abu Dhabi, which has been one of the earlier exporters of gas in liquefied form (LNG) to the Far East, but today is unable to cover domestic consumption and has launched the development of expensive tight and sour gas deposits. In this case, the correct cost concept would be marginal cost, i.e. the cost of producing more expensive gas from new deposits.

Opportunity cost is not immediately relevant for gas except if the country has an export facility for either pipeline gas or LNG. In this case, and assuming that the country is refusing to serve its potential foreign customers in full and yet has capacity to do so, the cost of using a cubic metre of gas domestically would be the difference between international and domestic prices. However this case is extremely rare for gas, because if capacity to export exists and customers are ready to buy more, they will be served.

### **3.2. Crude oil**

The situation for oil is altogether different. In most GCC countries capacity for producing oil is not fully utilised. Some of this capacity is deliberately kept unutilised to be available in case of a crisis erupts: this should not be considered to be available. But normally capacity in excess of that strategic cushion is available, and the opportunity cost of selling the cost domestically rather than keeping it in the ground may be very low or even negative (that is the domestic price may be higher than the future international price discounted to today). Then the marginal cost concept becomes relevant, and this again is very low because only direct costs are to be included.

However, when domestic demand expands and turns into a significant share of total production - which it has by now in most if not all cases - then it becomes clear that satisfying domestic demand requires the creation of capacity well in excess of what would be needed to serve the export market only. In this case, average cost becomes relevant, and we shall consider either the historical cost of investment or the replacement cost depending on whether our emphasis is recovering actual costs with a profit but no more, or on ensuring sustainability, i.e. the ability to recreate capacity as it becomes progressively eroded. Both concepts of average cost are significantly higher than marginal cost, because investment is the main cost component in this industry.

That said we should keep in mind that in the GCC average cost for newly developed fields is normally estimated to be below 5 dollars per barrel, while the international price is well above 60 dollars. This means that the full cost domestic price may very well be many times below the international price, considering that (by definition) exports are constrained and the full international price cannot be had (otherwise the correct cost concept would be opportunity cost).

### **3.3. Refined oil products**

A further complication relates to the fact that crude oil is normally not used as such, but as refined products. The refining process is one in which multiple joint products are produced, and attribution of cost to each one of them, including the cost of the oil feedstock, is essentially arbitrary. Some of the products have an active international market and are in stable demand, some have a market but have very variable seasonal demand (for example LPG - i.e. propane and butane) and some finally do not really have much of an international market. Refineries may have yields whose composition in terms of products slate depends on the configuration of the refinery and the quality of crude oil that is fed to the plant.

The GCC countries produce crude oils of different qualities, the lighter ones being in greater demand than the heavier ones. Heavy crude oils have proven difficult to sell at times, and this is prompting the GCC countries to invest in refineries that are specially designed for turning heavy oil into valuable products. Depending on the configuration of the refinery, it will yield more gasoline, kerosene and diesel, which are used as transportation fuels and have a significant international market; or naphtha, which is used as petrochemical feedstock and has much less of an international market.

What the above means is that one cannot easily allocate cost to each joint product of a refining and petrochemical process, and indeed not even of a gas project. The strategy that each producer adopts to maximise the value of the natural resource may be complex and involves investment decisions that cannot easily be changed at a later date. Allocating costs requires knowledge of which is the main motivation of each project, and for each joint product a decision is needed on whether to sell internationally or use domestically (which would also involve a sale, if the user is a third party - in which case the user is a captive customer).

### **3.4. Electricity**

So far we have discussed the price of hydrocarbons: what about electricity prices? Power generation in the Gulf is based exclusively on hydrocarbon fuels: either gas, or crude oil, or fuel oil. A limited amount of diesel is also used in remote areas.

The cost of producing power is determined by the investment costs and by the cost of fuel. Investment costs are lowest for a simple gas turbine power plant and are highest for a large thermal power plant which can burn crude or fuel oil. The cost is also influenced by the degree of utilisation of the plant - because electricity demand varies during the day and seasonally (seasonal variations are especially significant in the Gulf). The cost of the kw needed to satisfy peak demand a few days of the year is certainly very high, because the investment to acquire the necessary capacity must be recouped with minimal utilisation.

The matter is further complicated because of the growing number of integrated desalination and power production plants. In this case, electricity and desalinated water are joint products, and the question arises of how much of the cost should be imputed to each. In the GCC countries all prices for water and electricity are administered, and neither electricity nor water companies are able to fully recover their costs, but depend on continuing subsidies.

### **3.5. Some conclusions on energy/feedstock costs**

With all the necessary caveats, we can note the following points concerning the situation of the GCC countries:

- a) oil production capacity exceeds the desired level of exports almost at all times: the alternative to using the marginal barrel domestically is keeping it in the ground
- b) domestic consumption has grown considerably and is now a significant proportion of total production, therefore it is no longer appropriate to consider the marginal cost only; rather, an average cost concept, which includes investment, may be more appropriate; if sustainability is the main concern, then replacement cost for investment must be considered.
- c) heavy oil production has been difficult to sell at times, and the rationale for developing refineries to convert heavy oil into oil and/or petrochemical products is strong; how then cost is allocated to each joint product is largely a subjective matter
- d) natural gas (methane and ethane) was in the past almost exclusively produced in association with oil, but this is no longer the case. In Qatar, where the largest volumes of non associated gas are produced, NGLs play a fundamental role in the economics of upstream projects undertaken by International Oil Companies (IOCs)
- e) outside of Qatar, available gas production is insufficient to meet potential demand. Projects have been sanctioned or may be required to bring supply in line with demand but the gas cost for these increments (marginal gas volumes) would be considerably higher than the price at which gas is currently sold to large users. The current price may be sufficient to cover the cost of old supplies, but at this price demand exceeds supply and additional supply cannot be brought to the market. Hence, an increase in the sale price to major users is required to balance the market.
- f) power generation is based on either gas, heavy crude oil, or residual fuel oil from domestic refineries. As current gas production is not sufficient to meet demand, burning gas in a power plant has an opportunity cost which is equal to the cost of developing additional gas supplies, or to the netback value of the petrochemical or other products that may be derived from it - whichever is smaller. The opportunity cost of burning heavy crude oil is the netback value of the barrel when refined in a domestic refinery. For residual fuel oil, the alternative would be to revamp refineries and reduce the share of fuel oil in the products slate, to the benefit of more valuable, lighter products. Such investment is now largely taking place, and less residual fuel oil might be available in the future. The bottom line is that *all fuels used for power generation have some opportunity cost* as dictated by alternative domestic uses - not export markets necessarily - and it is quite possible that such opportunity cost exceeds the price at which fuels are sold to power plants.

#### **4. Feedstock prices and the competition for capacity in the petrochemical industry**

To understand the impact of feedstock prices on petrochemical industry growth we need to introduce certain key elements of the economics of the industry.

Firstly, the industry is characterised by a sequence of stages or successive transformations: initial feedstock, which may originate from the field or from a refinery, is transformed into basic or commodity petrochemicals, and these are then transformed into more complex, lower volume and higher value added products. Three or four successive transformations are possible before a final product is reached which is used in manufacturing industry.

Generally speaking, the cost of feedstock will be especially relevant for the initial transformation: once an intermediate product is produced, the competitiveness of successive stages depends on whether the intermediate product is used within an integrated complex, so that only the value of final products that are sold matters; or is sold to an independent buyer for further transformation. In the latter case, the advantage of a cheaper feedstock may be entirely appropriated by the initial transformation.

Secondly, the incidence of the cost of feedstock also very much depends on the specific process - it may be important for lower value added, open technology processes; and have more limited importance in other processes.

The pricing of feedstock has played an important role at the early stages of the industry, when emphasis was on the primary transformations based on simple feedstock - methane and ethane. But as the industry has matured and added successive transformations or begun using more complex molecules as feedstock, the influence of pricing is greatly reduced, and other factors have become more important.

In fact, to fully understand the dynamics of competition in the petrochemical industry it is necessary to factor in the consideration of investment costs and of the investment cycle. Investment costs are a very important component of total costs in the industry. The competitiveness of a plant very much depends on minimizing the investment cost and maximising capacity utilisation.

Investment cost is primarily a function of plant size: the bigger the plant the lower the unit cost of the product. This is a common characteristics of all processes requiring vessels and/or pipes, as the cost of the vessel is a function of its surface, hence of the square of the radius; while the capacity is a function of its volume, hence of the cube of the radius. Consequently, newer plants tend to always be bigger than all preceding ones, the limit being the physical ability to build bigger plants and the size of the market. Capacity then cannot be increased gradually: it increases in discrete increments, through the addition of new plants that are normally as big, if not bigger, than the largest previously existing plants.

As a consequence, the industry tends to experience investment cycles, which are accompanied by very wide product prices swings. As demand increases monotonously with GDP (and more rapidly than GDP), given any initial capacity it is expected that within a certain time demand will exceed capacity and prices will increase. The industry then experiences a period of attractive profits, which stimulate investment. Whichever company/country is first to announce and implement capacity additions may succeed to discourage competitors from doing the same - but competitors are

tempted to "call the bluff", and it always happens that too many projects are launched all at once.

As capacity additions are large and discrete, the implementation of a round of new projects normally results in excess capacity and tumbling prices. In the subsequent low prices period, high cost producers may be pushed out of the market, until equilibrium is restored. The industry almost never finds itself in equilibrium: it most commonly oscillates between excess capacity and excess demand, and at each round less efficient producers are eliminated and more efficient plants are added.

The competitive game in the petrochemical industry - at least in basic commodity chemicals, whose technology is available to all for a fee - is therefore conducted primarily through aggressive addition of more efficient capacity. From the point of view of countries striving to diversify their economies, this means that it pays to attract investors to undertake large scale projects relatively early in the cycle. Once those projects are implemented, they are likely to be more efficient than older projects, and survive the next slump in prices.

The competition is therefore centred on locational decisions: if a major company with good marketing decides to set up a production unit in my country, and the plant is completed at low cost and managed efficiently, my country has acquired a competitive advantage.

Locational decisions are influenced by feedstock prices, but there is much more to it. Specifically, the availability of attractive credit conditions for the implementation of large industrial investment projects is a major consideration; as is the availability of infrastructure and transportation facilities, notably close to the sea; and the ease of the investment approval process, especially with respect to environmental impact.

The industrial clusters that have been developed by the GCC countries are especially attractive for the petrochemical industry thanks to potential synergies between different plants located in the same cluster. The output of one project is frequently a feedstock for another project. A joint product which may be available in small volumes from one project may be also available from others, so that in the aggregate enough of it is available to sustain further transformation. Common support services can be developed which contribute to efficiency and the lowering of costs.

In summary, the provision of cheap feedstock has played an important role in attracting foreign investment at the early stages of the industry, but it was not the only element. The creation of strong local partners (SABIC first and foremost) willing to substantially contribute to the equity, the provision of favourable long term credit, the availability of infrastructure and transportation facilities, geographical location and access to the high seas: a host of factors contributed to the initial locational decisions of the early investors. Thereafter, the industry has tended to grow on itself following an internal dynamics in which feedstock prices play a rapidly diminishing role and other factors become increasingly important.

## **5. Concluding remarks**

All national governments engage in various practices of "price distortion" to support their industry and attract foreign direct investment. In this context, it is logical that GCC member countries should leverage their advantage in the availability of hydro-

carbons to pursue industrialisation and economic diversification.

It is relatively easy to enunciate the principle that in any case the price should be sufficient to cover costs, otherwise inefficient, unsustainable industries are encouraged. However, the relevant concept of cost needs to be clarified, and, as we attempted to demonstrate, which of the multiple definitions of costs is relevant depends on circumstances. The latter change over time; therefore, price levels that might have been rational and defensible in the past cease to be so if circumstances change and a different cost concept becomes relevant.

This paper has argued that domestic pricing policies for associated natural gas and for petrochemical feedstock from refinery (naphtha) are well above the relevant concept of cost, therefore cannot be said to be subsidized. However, we also noted that current natural gas prices do not justify the exploitation of some new non-associated gas deposits (e.g. in Abu Dhabi and Saudi Arabia) and consequently supply of natural gas has been constrained. Eventually, domestic prices will need to be increased if supplies are to match industrial demand.

Cheap feedstock prices have played a significant role in the early stages of the petrochemical industry's development, but are today probably much less important. To conclude that the petrochemical industry in the GCC is not viable because it is based on cheap feedstock would be grotesque.

The paper also argued that competition in the petrochemical industry takes place at the level of attracting new capacity, because new plants are always more competitive than old plants. In this "competition for capacity" feedstock costs are but one of numerous important considerations. Notwithstanding the violent oscillations in the price of oil and the global crisis, new large scale petrochemical projects have been launched in the region in 2009. All major petrochemical companies are investing in the GCC in joint venture with local players, and the region is rapidly consolidating its specialization in the production of intermediate petrochemicals.

However when it comes to electricity, the wisdom of offering low tariffs when power is generated from burning hydrocarbons that have a much higher opportunity cost is debatable. Selling electricity cheap to manufacturing industries, such as ceramics and glass, may be justified on the basis that the benefit in terms of value added by far exceeds the opportunity cost.

But the case of industries that fundamentally rely on large inputs of electricity - notable among which is the aluminium industry - is altogether different. The GCC countries face such levels of electricity consumption already today - and rapidly increasing - that they will need to diversify from simple use of fossil fuels, and invest massively in new generation capacity, including nuclear. The opportunity cost of burning natural gas and crude oil in power plants has certainly become significant, and additions to power generation capacity are expensive and not entirely paid by current tariffs. It is not excluded that nuclear energy may be produced at competitive cost, justifying the regional specialization in aluminium smelting, but it is clear that the GCC countries face some critical decisions in this respect.

## **About the author**

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# The Gulf Food Import Dependence and Trade Restrictions of Agro Exporters in 2008

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## Introduction

Gulf countries are heavily dependent on food imports. This dependence will rise due to population growth and declining domestic agriculture. Naturally, the export restrictions of food exporters in the wake of commodity price hikes in 2008 have been an issue of great concern to them. They reacted by building up strategic food storages and announced agricultural investments abroad, mostly in developing countries that have food security issues of their own (e.g. Sudan, Ethiopia). The stated aim is to gain privileged bilateral access to food production and reduce the exposure to market failure like the food price hikes and export restrictions of 2008.

This paper argues that agricultural investment in developing countries can only form one segment in a Gulf strategy for food security. In order to attain food security, bilateral approaches are not the only solution. GCC countries will need to rely on open and affordable global food markets anyway - in order to get the food they do not necessarily need to grow it. They have a vital interest that international food markets stay open and should participate in international endeavors to make them more efficient and reliable.

The International Food Policy Research Institute (IFPRI) has been suggesting that an international food reserve could make food markets less volatile and prevent overshooting of prices. Beside a smaller physical storage, a virtual storage in an international fund could intervene in markets to cool speculative exuberance if necessary.

This paper first illustrates the food security predicament of Gulf countries and how they have reacted to it with international agricultural investments. Secondly it discusses the food price hikes and export restrictions of 2008 that worried the Gulf countries so much. Thirdly it outlines the Gulf's import requirements in different food items. Fourthly it maps out import dependences of Gulf countries by country. Here it focuses on wheat and rice which are of crucial importance for food security as they form about 40 percent of the Gulf people's diets. Finally it discusses proposals for an international food reserve that could make food markets more reliable and prevent a wave of export restrictions from happen again.

## The Gulf food security predicament and international agro-investments

To understand the Gulf's concerns about food security one needs to take a detailed

look at its food import dependence and how it has developed historically. The Arab countries witnessed an "exploding food gap" in the 1970s due to population growth and higher per capita income in the wake of the oil price bonanza. This food gap and the import dependence that came with it were regarded as a strategic liability, also because there had been Western threats of curbing such food trade in retaliation to the Arab oil boycott.<sup>1</sup> Failed plans to establish an international food reserve and the US food embargo against the Soviet Union in the wake of the Afghanistan invasion also showed the Gulf countries the highly politicized and strategic nature of global food markets. This nourished an outspoken wish for self sufficiency and reduced reliance on imports.

Initial plans to develop Sudan as a bread basket for the Gulf fell by the wayside and especially Saudi Arabia embarked on an ambitious course of "prudent self-sufficiency", as it put it in its five years plans. In the 1970s it started a massive expansion of subsidized agriculture, especially wheat and livestock production, that relied heavily on non-renewable reserves of fossil water. Wheat production skyrocketed from less than 3,300 tonnes in 1978 to over 3.9 million tonnes in 1992, making Saudi Arabia the world's sixth largest wheat exporter at that time.<sup>2</sup> However, overexploitation of resources and sinking water tables already led to a significant reduction of Saudi wheat subsidies in the 1990s and an ensuing decline of production. In 1996 Saudi wheat exports ceased, but production remained on self sufficiency levels until 2007 before the Saudi government decided in 2008 to phase out wheat production by 2016.

Nowadays Saudi Arabia and other Arab Gulf countries face a major dilemma: Their cereal cultivation is in decline because of depletion of water resources, while the population will rise from below 40 million to nearly 60 million in 2035, Saudi Arabia's headcount alone will increase from 26 million to 39 million over the same period. The need for food imports will grow dramatically; even today they already meet 60 percent of total demand.<sup>3</sup> Saudi Arabia's dependence is still smaller than its Gulf neighbors' due to its considerable agricultural sector, but it will rapidly catch up once its wheat production has been phased out.

As a reaction GCC countries have tried to gain direct access to agricultural production by investing in agricultural projects abroad and acquiring long term rights to land either by outright purchases or via long term leases. From Brazil to the Philippines to Kazakhstan or Ethiopia, there have been discussions about potential agricultural investments. Memorandums of understanding between governments have been drafted and first projects have been announced.

Saudi Arabia and Qatar have the most institutionalized approaches of the GCC countries. The King Abdullah Initiative for Saudi Agricultural Investment Abroad (KAISAIA) Saudi Arabia tries to spur government sponsored private sector investments, while the Qatar National Food Security Programme (QNFSPP) prefers invest-

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1 David E. Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Ithaca/ London: Cornell University Press, 1999), 26.

2 Alan Richards, John Waterbury, *A Political Economy of the Middle East*, (Boulder: Westview Press, 1998), 160.

3 Twenty Seventh FAO Regional Conference for the Near East, Doha, March 13-17, 2004, 6, available at: <http://ftp.fao.org/unfao/bodies/nerc/27nerc/1655e.doc>. Population figures from UN World Population Prospects: The 2006 Revision Population Database, available at: <http://esa.un.org/unpp/>.

ments in already existing agricultural companies instead of acquiring land rights and building up farming operations from scratch.

There has been a preference for countries that are geographically close and offer logistical advantages, such as Sudan and Pakistan. Established political channels and cultural ties have also played a role in choosing such locations. However, these countries are net food importers themselves and have rapidly growing populations like most other targeted countries in Africa and Central Asia. Their potential role as a major provider of food export is, therefore, questionable. Natural endowments of these countries also vary considerably. In Central Asia and Pakistan, there is a physical water shortage - withdrawals of renewable water are higher than replenishment rates and the full potential of irrigation has been largely achieved. Many countries in East Africa, on the other hand, have only an economic water shortage. Mozambique or Tanzania would be cases in point. Once large-scale investments in infrastructure have been undertaken, their vast untapped water resources could be used for agriculture.

## **Global food price hikes and export restrictions by food exporters in 2008**

Prices for maize and wheat doubled between 2003 and 2008. Although prices have come down in the second half of 2008 they are still 30-50 percent above their averages in the 1990s. Speculation in soft commodities increased sharply between 2007 and 2008 and contributed to the food price hikes (see Table 1), but there are good arguments that we are rather at the beginning of a structural price shift to the upside than at the end of just another speculative bubble.<sup>4</sup>

**Table 1** Growth in the Volume of Globally Traded Grain Futures and Options, May 2007-May 2008

| Commodity   | Growth in Traded Volume (%) |         |
|-------------|-----------------------------|---------|
|             | Futures                     | Options |
| Maize       | 0                           | 13      |
| Soybeans    | 40                          | 69      |
| Soybean Oil | 46                          | 69      |
| Wheat       | 17                          | 45      |
| Rice        | 48                          | 41      |

*Source:* Chicago Board of Trade 2008, quoted in Joachim von Braun, Maximo Torero, "Implementing Physical and Virtual Food Reserves to Protect the Poor and Prevent Market Failure," IFPRI Policy Brief Vol. 10, Washington DC., February 2009.

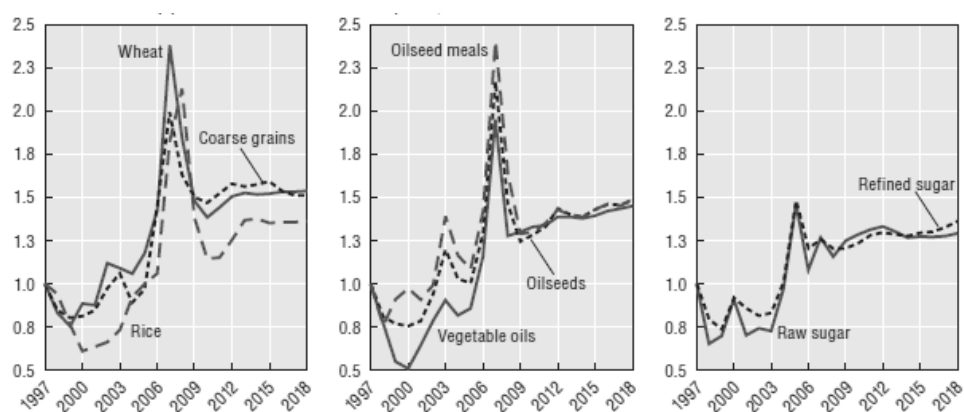
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4 *The Economist*, "Green Shoots - No Matter How Bad Things Get, People Still Need to Eat", 19 May, available at: [http://www.economist.com/business/displayStory.cfm?story\\_id=13331189](http://www.economist.com/business/displayStory.cfm?story_id=13331189) ; J. von Braun, Food and Financial Crises: Implications for Agriculture and the Poor, Washington DC, International Food Policy Research Institute (IFPRI), Food Policy Report No. 20, available at: <http://www.ifpri.org/PUBS/agm08/jvbagn2008.asp> .

On the demand side price increases have been underpinned by population growth, more meat oriented diets in emerging markets due to income growth and a rising demand for biofuels. On the supply side the oil price hike has made input factors more costly (e.g. machinery fuel, transportation, fertilizer) while the regional occurrence of water stress and the impact of climate change on agricultural production in certain regions (e.g. Africa, Latin America) weigh heavily. Overall, the FAO's goal to increase global food production by 40 percent until 2030 and by 70 percent until 2050 is a formidable challenge and cannot be taken for granted.<sup>5</sup> OECD and FAO expect food prices in the coming decade to remain considerably above their former long term averages, although a return to the overshooting of prices in 2008 is not on the cards (see Figure 1).

The rising need for food imports in the GCC comes at a time when the exportable agricultural surplus worldwide is strained, as food markets are tight and stockpiles are at historic lows. The price hikes of 2008 led to a number of bread riots in countries like Mexico, Haiti, Egypt and Indonesia and many exporter countries implemented export restrictions (see Map 1). Export tariffs on wheat were implemented by Argentine, Kazakhstan and Russia, all significant players in global wheat exports. Other countries reduced restrictions on imports: Morocco, for example, cut tariffs on wheat imports from 130 percent to 2.5 percent; Nigeria cut its tax on rice imports from 100 percent to just 2.7 percent. Rice exports were curbed by Egypt, Vietnam, Cambodia, China and India, while Thailand the world's largest rice exporter sold 650,000 tons of rice from state stocks at subsidized rates thus signaling acute concerns for domestic food security that might have led to export restrictions at a later stage as well. Although the Indian export ban did not apply to Basmati rice variants, which the Gulf countries mainly import, it was particularly worrying, as India is the most important rice exporter to the Gulf.

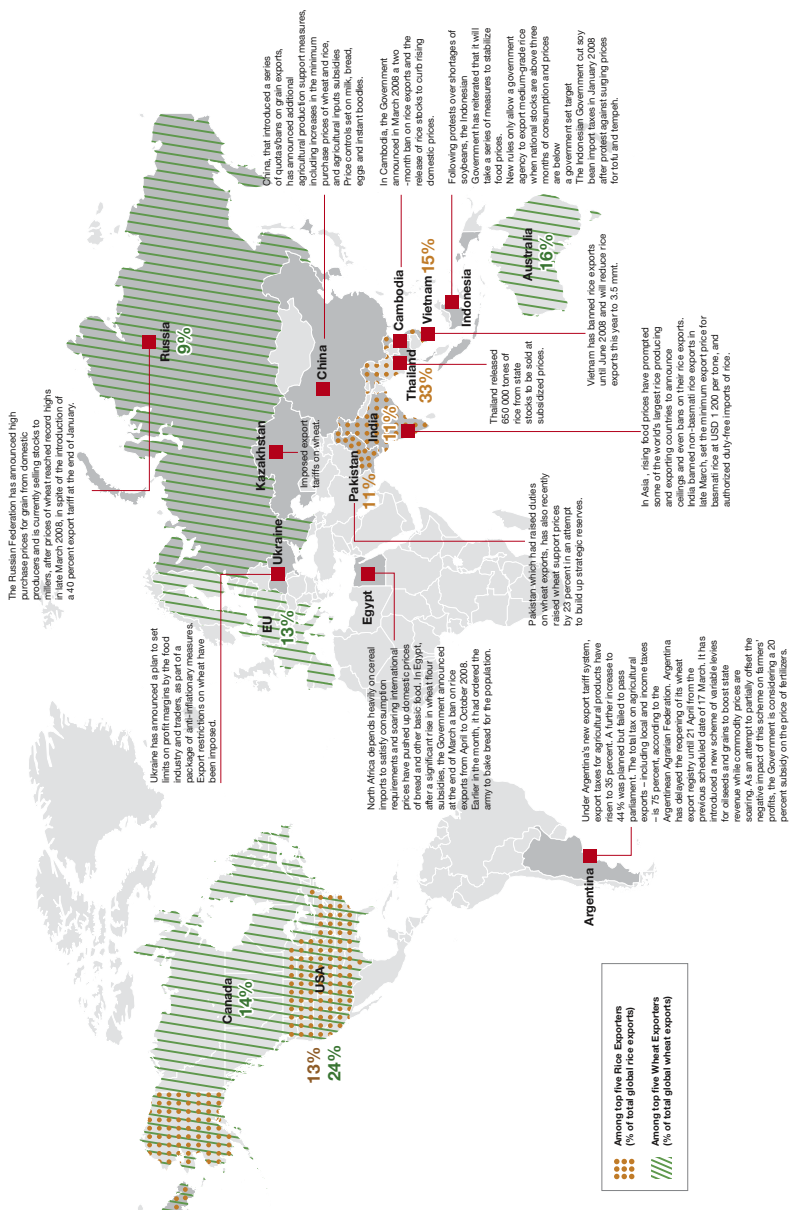
**Figure 1** Outlook for world crop prices to 2018 index of nominal prices, 1997 = 1



Source: OECD-FAO, *Agricultural Outlook 2009-2018*, Paris, 2009

<sup>5</sup> OECD-FAO, *Agricultural Outlook 2009-2018*, Paris, 2009, 62.

Map 1 International agricultural restrictions and policy measures



Sources: USDA, FAO, news agencies, Gulf Research Center (GRC)

Most of these export restrictions have been lifted in the meantime as food markets have become less strained. While they were motivated by concerns for domestic food security, the situation was in hindsight not as bad as to justify an internationally uncoordinated policy response. Like in global energy markets multilateral coordination is necessary in the future and could encompass exchange of market intelligence and storage solutions.

Especially in the rice market price developments in 2008 were heavily influenced by export restrictions and not so much by fundamentals of supply and demand. Rice is particularly prone to market volatility. Only a small share of its overall production is traded, while it has huge strategic importance for food security in Asia, where about 90 percent of world wide rice is produced. The global rice market is also very segmented along different quality grades and significantly different from the global wheat market, where the export share of overall production is larger, concentrates on fewer countries (US, Canada, Argentina, Australia, EU and lately Russia) and is controlled by a small number of agricultural trading houses (André, Bunge, Cargill, Continental, Dreyfus) and the wheat boards of Australia and Canada.<sup>6</sup>

The export restrictions shocked food importers like the Gulf countries, but their benefit for the respective exporting countries was doubtful as well. In the short-term export restrictions can reduce risks of food shortages in the exporting country, but they make the international market smaller and more volatile. On the consumer side they can lead to panic buying, while on the producer side they dampen the incentives to invest in agriculture and expand output. Thus, they can also have detrimental effect for the agricultural sector in the exporting country in the longer run.

## Gulf import dependence by food item

As can be seen from Table 2, Gulf import dependence is particularly pronounced in cereals, most notably wheat and rice for human consumption and barley as feed for livestock. The last available data by the Arab Organization for Agricultural Development (AOAD) is from 2006 when Saudi Arabia was still an exception as its subsidized wheat program made it self sufficient in this item until 2008. In the meantime however it has started to import meaningful quantities as well as it has decided to phase out wheat production by 2016. In other GCC countries, cereal cultivation is largely non-existent and import dependence already close to total as of today, especially in the case of rice. In other food items such as meat, poultry, oil seeds, fruits and vegetables import dependence is also substantial, although self sufficiency ratios are higher and can reach 50-75 percent. In fact self sufficiency ratios in fruits and vegetables are likely to be maintained on higher levels if agriculture is switched to these more value added crops and water saving technologies like green houses and drip irrigation are used more frequently. Qatar is also exploring the possibility of domestic agriculture with water from solar based desalination.

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6 Dan Morgan, *Merchants of Grain* (New York: Viking Press, 1979); J. M. Antle, V. H. Smith (ed.), *The Economics of World Wheat Markets* (New York, Wallingford: CABI Publishing 1999).

**Table 2** Food self sufficiency of Gulf countries and Sudan in 2006 (%)

|                     | Saudi Arabia<br>(2007) | Kuwait | Qatar | Countries<br>Bahrain | Oman   | UAE   | Sudan  |
|---------------------|------------------------|--------|-------|----------------------|--------|-------|--------|
| Cereals (total)     | 23.44                  | 3.88   | 3.12  | -                    | 1.19   | 0.86  | 80.07  |
| Wheat and flour     | 97.56                  | 0.16   | 0.02  | -                    | 0.77   | 0.02  | 32.28  |
| Maize               | 8.69                   | 0.54   | 7.08  | -                    | -      | -     | 103.86 |
| Rice                | -                      | -      | -     | -                    | -      | -     | 57.50  |
| Barley              | 0.41                   | 3.91   | 37.08 | -                    | 6.73   | -     | -      |
| Potatoes            | 101.55                 | 73.73  | 0.32  | 0.10                 | 18.59  | 7.53  | 99.97  |
| Pulses (total)      | 0.00                   | -      | -     | -                    | -      | 11.46 | 76.50  |
| Vegetables (total)  | 77.66                  | 72.68  | 18.72 | 17.97                | 53.22  | 37.38 | 99.89  |
| Fruits (total)      | 64.50                  | 17.78  | 22.42 | 23.51                | 75.41  | 53.14 | 98.46  |
| Sugar (refined)     | -                      | -      | -     | -                    | -      | -     | 88.42  |
| Fats & oils (total) | 0.42                   | 0.02   | -     | -                    | -      | -     | 120.96 |
| Meat (total)        | 55.58                  | 30.96  | 20.07 | 44.18                | 28.24  | 20.18 | 100.09 |
| Red meat            | 48.44                  | 71.38  | 25.18 | 71.23                | 20.60  | 6.77  | 100.10 |
| Poultry meat        | 58.28                  | 18.84  | 16.24 | 23.19                | 31.92  | 25.97 | 99.80  |
| Fish                | 43.96                  | 36.25  | 99.12 | 110.06               | 165.41 | 74.45 | 104.66 |
| Eggs                | 104.18                 | 63.53  | 28.52 | 42.29                | 79.87  | 38.66 | 99.87  |
| Milk & Dairy prod.  | 27.98                  | 14.83  | 7.49  | 6.03                 | 88.57  | 17.48 | 98.34  |

Source: Arab Organization for Agricultural Development: Arab Agricultural Statistics Yearbook, Vol. 27, 2007 and Vol. 28, 2008, available at: <http://www.aoad.org>

With the end of the self-sufficiency illusion and continuous population growth imports will rise. Wheat and rice imports are of crucial importance as they constitute around 40 percent of dietary energy consumption in GCC countries (see Table 3). Wheat is of particular importance with a share of 24 percent to 30 percent of dietary intake. The wheat and sugar consumption rates of Gulf countries are also high in international comparison.

**Table 3** Share of main food items in total dietary energy consumption (%), 2003-2005

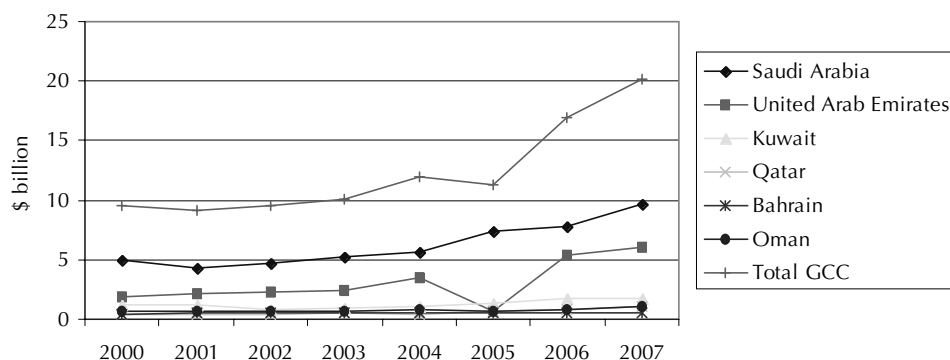
|              | Wheat | Rice | Sugar |
|--------------|-------|------|-------|
| Saudi Arabia | 28    | 11   | 10    |
| UAE          | 30    | 14   | 12    |
| Kuwait       | 24    | 16   | 11    |
| India        | 21    | 32   | 7     |
| USA          | 16    | 2    | 9     |

Source: FAOSTAT

The US Department of Agriculture (USDA) estimates that Saudi Arabia will be the world's largest barley importer over the coming decade with a share of 35 percent (7-8.5 tonnes annually). Barley is needed as feedstock for the sizeable livestock industry of the country. Wheat imports will increase from self-sufficiency until 2007/08 to 3 million tonnes in 2018/19. Over the same period corn imports will increase from 2

7 USDA, Agricultural Projections to 2018, February 2009, available at: <http://www.ers.usda.gov/Publications/OCE091/OCE091f.pdf>

**Figure 2** GCC agricultural net imports (\$ billion)



Source: FAOSTAT, TradeSTAT database as of January 22, 2010, available at: <http://faostat.fao.org/site/535/default.aspx#ancor>

tonnes to 3.3 tonnes and rice imports will increase from 0.96 tonnes to 1.53.<sup>7</sup> On a GCC level food net imports started already to rise in 2004/2005, well before the pronounced food price hikes of 2007/2008 (see Figure 2). They reached \$20 billion in 2007 and the share of agricultural imports in total merchandise imports ranged from 5 percent (Qatar, Bahrain, UAE) to 10 percent (Kuwait, Oman) and 13 percent (Saudi Arabia).

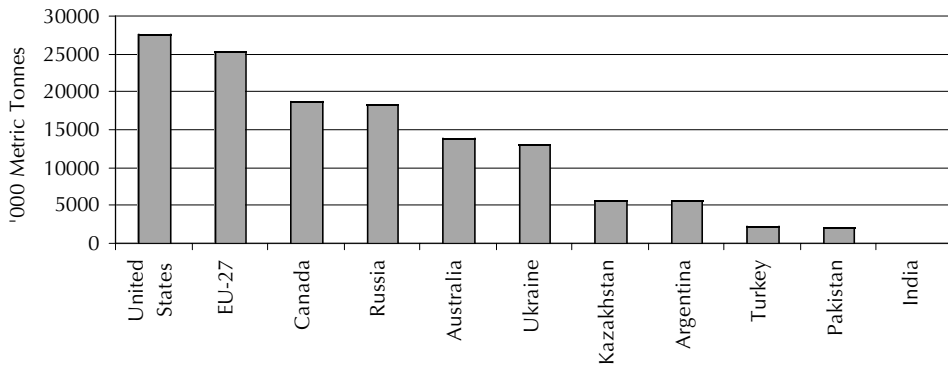
## Gulf wheat and rice imports: countries of origin

The import profiles of GCC countries differ considerably from internationally dominant export countries (see Figures 3 and 4). They reveal a strong reliance on India and Pakistan for rice, while the two major exporters worldwide the, US and Thailand respectively, are underrepresented. With growing import needs a greater diversification of countries of origin will be warranted. Australia and Canada are now the major wheat exporters to the GCC countries, while the two largest global exporters, the US and the EU are underrepresented.

Currently, the GCC countries rely to over 50 percent on India and over one third on Pakistan for rice imports, with Thailand and USA accounting for above 5 percent each (see Figure 5). India is still a net food exporter, although it increasingly develops food security issues. In the 1990s productivity gains of the Green Revolution leveled out and lagged behind population growth for the first time since the 1960s. Pakistan is already a net food importer, faces a severe physical water shortage and has implemented export restrictions in 2008 for reasons of food security. The US share in GCC rice imports is mostly attributable to Saudi Arabia which imported 12.5 percent of its requirements from there in 2007; otherwise all GCC countries show a fairly similar distribution of countries of origin of their rice imports.

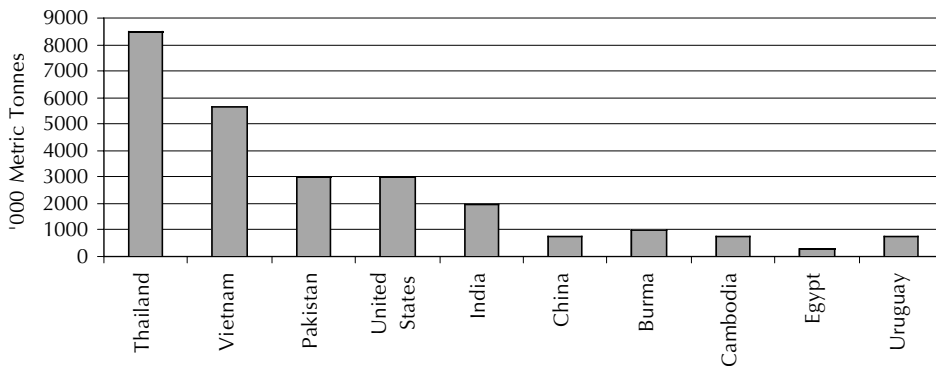
GCC wheat imports come from a wider variety of countries of origin and show greater variation between each country over the years. Australia and India used to be the most important suppliers with mostly 30-40 percent shares each. While Australia has kept this standing, India's wheat exports have plummeted since 2005/2006 and

**Figure 3** Major global wheat exporters, 2008/2009



Source: USDA

**Figure 4** Major global rice exporters, 2008/2009



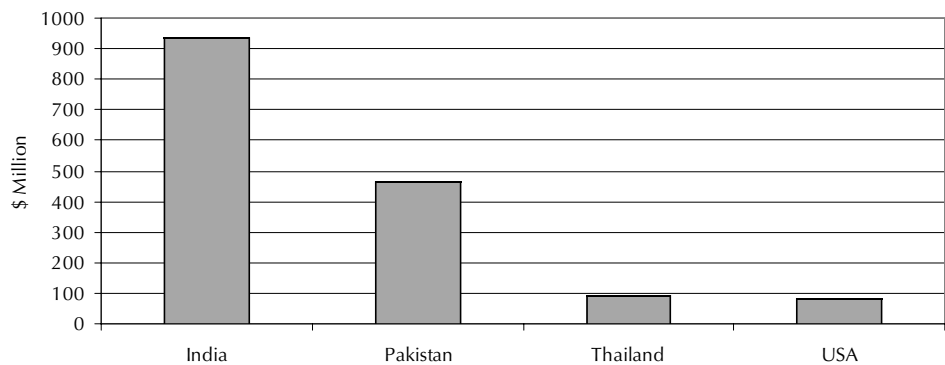
Source: USDA

had to be replaced. Alongside their growing role in international wheat markets, Russia and Kazakhstan have gained market share in the Gulf over recent years. Canada has also been a stable wheat supplier albeit with a smaller share than Australia of around 15 percent on average (see Figure 6).

Iran's sizeable share is mainly attributable to Oman, which all over sudden imported 52 percent of its wheat requirements from there in 2007. In 2008 Iran again contributed a similarly large amount to the Oman's imports (Trademap statistics for 2008 are thus far only available for Oman, Qatar and the UAE, but not for Qatar, Saudi Arabia and Kuwait). This comes as a surprise as Iran is a food net importer itself, although in good years it has considerable self sufficiency in grains. However, it had to import half of its wheat requirements in 2008/2009 due to a drought and became

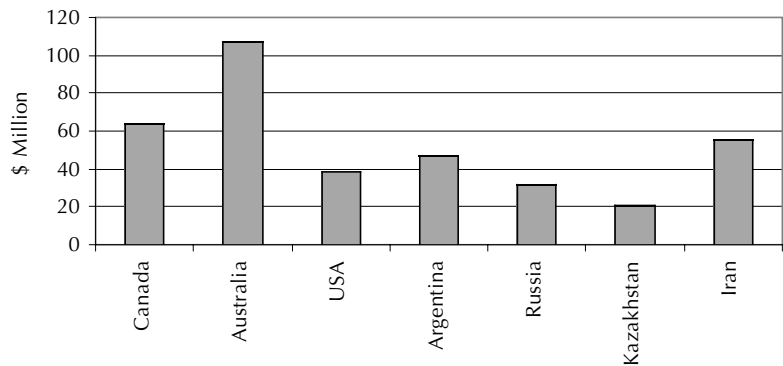
8 US Department of Agriculture, *Grain: World Markets and Trade Circular*, Series FG-04-09, April 2009, available at: <http://www.fas.usda.gov/grain/circular/2009/04-09/grainfull04-09.pdf>; USDA, Foreign Agricultural Service, IRAN: 2008/09 Wheat Production Declines Due to Drought, *Commodity Intelligence Report*, May 9 2008, available at: [http://www.pecad.fas.usda.gov/highlights/2008/05/iran\\_may2008.htm](http://www.pecad.fas.usda.gov/highlights/2008/05/iran_may2008.htm).

**Figure 5** Major rice exporters to the GCC countries in 2007



Source: International Trade Center, Trade Map Statistics, as of January 22, 2010, available at: [www.trademap.org](http://www.trademap.org)

**Figure 4** Major wheat exporters to the GCC countries in 2007



Source: International Trade Center, Trade Map Statistics, as of January 22, 2010, available at: [www.trademap.org](http://www.trademap.org)

the world's largest wheat importer with 8.5 million tones during this period.<sup>8</sup> Thus, its major contribution to Omani wheat imports might have been a one time off event, although Iran recently stressed that it wants to return to wheat self sufficiency in 2009/ 2010 and import needs have only been temporary due to the recent drought.<sup>9</sup>

Saudi Arabia did not import any meaningful quantities of wheat until 2008, but will do so increasingly as wheat production is phased out by 2016. In terms of its rice imports Saudi Arabia relies mostly on India from where it imports mainly Basmati rice. Variants of US and Thai rice are less popular. The Kingdom receives about two thirds of its rice from India and 73 percent of these shipments are Basmati variants. It purchases on average about 60 percent of Indian Basmati harvests, which are mainly grown in the Punjab region. The rest goes to the UK (18 percent), the UAE (9 percent), Kuwait (7 percent) and other countries (6 percent).<sup>10</sup>

9 "Iran hints at return to wheat self-sufficiency," *The Peninsula*, May 24, 2009.

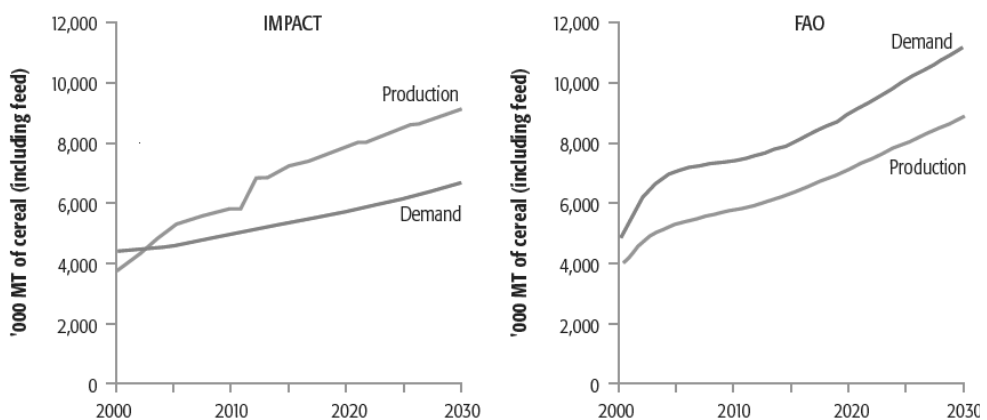
10 John Sfakianakis, "Eating into the Economy. Food Price Inflation in the Kingdom," Saudi British Bank, Research Report, Q2 2008, 17.

## Would an international food reserve help to keep markets open?

Gulf countries reacted with three kinds of measures to the global food price hikes in 2007 and 2008: a) Increase in food subsidies or price controls, b) building up of strategic food storages and c) agricultural investments abroad. Price controls and subsidies may have helped to alleviate the impact on vulnerable segments of the population in the short run until markets returned to more normal levels, but they are hardly a suitable and efficient means to ensure food security in the long run. While oil-rich Gulf governments can afford the fiscal burden that comes with subsidies they may consider gradually replacing them by more targeted approaches of direct aids to needy segments of the population. The decision for strategic food reserves and agro-investments abroad on the other hand are of a more long term nature. So far these measures have not gone very much beyond the planning stage, but in as far they signal an effort on part of the Gulf countries to solve the food crisis on a national and bilateral level they would need to be enhanced by a component of international cooperation to be successful.

While agro-investments can be part of an emerging Gulf food security strategy, they will not be able to secure all the Gulf's needs and it is hardly conceivable that such investments can be successful as exclusive bilateral procurement projects. In good times they are more successful if embedded in an overall development of agriculture in the targeted countries and the world at large, thus taking full advantage of available marketing options. In bad times it is unlikely that export of crops could be guaranteed by troops and ring fencing of farms. Sudan for example ranks very highly on the agricultural investment agenda of Gulf countries, however it is a net food importer at this stage and the World Bank assumes that even under optimistic assumptions the country will only be able to produce a limited agricultural surplus (see Figure 7).

**Figure 7** Sudan's potential as bread basket for the Gulf countries is uncertain



Source: Authors. Adapted from IFPRI, 2008; FAO, 2008d.

Source: World Bank, "Improving Food Security in Arab Countries," Washington D. C., January 2009

Note: IMPACT study of IFPRI and FAO study assume similar development of production but differ with regards to Sudan's consumption

Hence, reliance on international markets and established food exporters is here to stay for the Gulf countries and the question arises how disruptions like the export restrictions of 2008 can be avoided. Reducing volatility of markets by improving their transparency and predictability would be an obvious answer. A multilateral storage and market information system could achieve exactly this, not unlike the International Energy Agency (IEA) in the case of oil, which was founded in the wake of the energy crisis of the 1970s.

The International Food Policy Research Institute (IFPRI) in Washington has suggested a three pronged approach to such an international food reserve:<sup>11</sup>

- A small physical food reserve for food emergencies. It would contain 300,000-500,000 tonnes of basic grains at strategic locations close to developing countries and would be managed by the World Food Program
- An internationally coordinated global food reserve to reestablish trust in global grain markets and to counter excessive hoarding at the national level, which would lead to a large and expensive total global reserve and a thin global grain market, which in turn would be prone to volatility and less able to react to unexpected supply and demand shocks
- An international fund that would function as a "virtual reserve" by intervening in futures markets to curb excessive speculation and keep prices roughly in line with their long run fundamentals

Gulf countries have discovered strategic storage as part of their food security strategy. Oman already has an operational storage for 3-4 months of basic food consumption, while Saudi Arabia and the UAE are in the process of setting up such a system. At this stage however these are isolated national efforts without connection to the producer countries and prevailing market conditions. It is this form of national storage that might cause the very volatility it intends to fight according to IFPRI, as such moves could lead to unnecessary and expensive storage, an inefficient global production system and thin grain markets if practiced widely internationally.

A multilateral storage system would link national storage solutions to a global coordination agency which would receive inputs from both importers and exporters. It then would set a target price band based on market expectations that balances interests of exporters, farmers and consumers. The ensuing implementation of supply management measures would be done nationally and reported to a monitoring body. Alternatively a single global reserve could be linked to a global coordination agency, which in turn would keep prices within the pre-determined band by open market operations. This solution could prove to be more cost efficient than a series of national reserves. A multilateral storage solution would cater to commercial markets and would be different from reserves being held for humanitarian aid, which have different goals and management strategies.<sup>12</sup>

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11 Joachim von Braun, Maximo Torero, "Implementing Physical and Virtual Food Reserves to Protect the Poor and Prevent Market Failure," IFPRI Policy Brief Vol. 10, Washington DC., February 2009; Joachim von Braun, Justin Lin, Maximo Torero, "Eliminating Drastic Food Price Spikes - a Three Pronged Approach for Reserves," IFPRI, Washington DC., March 2009.

12 Robin Willoughby, Alan Parsons, "Global Food Reserves. Framing the Context for a New Multilateralism," *Share the World's Resources Report*, London, October 2009; Brian Wright, "International Grain Reserves and Other Instruments to Address Volatility in Grain Markets," World Bank Policy Research Working Paper, Washington DC., August 2009; John Lynton-Evans, "Strategic Grain Reserves Guidelines for their Establishment, Management and Operation," (Rome: FAO 1997).

An international food reserve raises the question, which institutions and countries will be responsible for it, how they will be held accountable and whether the corresponding market interventions are justified and successful. IFPRI proposes a "Club" of constituting members that could comprise the G8 + 5 (China, India, Mexico, South Africa, Brazil) plus some grain exporting countries such as Argentina, Thailand or Vietnam. IFPRI admits that agreement on arrangements might be difficult and could require a high level UN task force to sort things out. The Club countries would hold a certain share of reserves on the national level for intervention in spot markets and would issue promissory guarantees to the virtual reserve fund for interventions in the futures markets. They also would appoint the high-level technical commission, which would have full autonomy and decide on possible interventions. The technical commission would be assisted by a global intelligence unit which would advise on price forecasts, maintenance of the price band system and possible interventions. Ideally it would be tied to an existing institution with corresponding know-how such as FAO, USDA, IFPRI or the World Grain Council.

The market intervention and bureaucracy associated with an international food reserve would have been regarded by many as sheer heresy before the global financial crisis. Like elsewhere market failure has led to a reassessment of options. The IFPRI proposal is aware of possible problems; it opts for reasonably broad price bands and does not aim to eliminate price spikes and market dynamics in general. Its goal is only the prevention of speculative overshooting as witnessed in 2008. Furthermore, it builds upon existing capacities with national and international institutions and tries to keep costly physical storage at a minimum by introducing the idea of a virtual reserve and its intervention mechanism.

If successful, an international food reserve could make global food markets more transparent and reliable and less prone to volatility. By reestablishing trust in world food markets it could help to prevent a reoccurrence of export restrictions as have been seen in 2008. It would be in the best interest of Gulf countries to participate in the ongoing discussions and coordinate their plans for national food reserves accordingly. As Saudi Arabia is a member of the G20 it should aim to become a member of an international food reserve agreement if it became reality. Thus, it could actively promote the interests of Gulf countries in global food security considerations.

## **Conclusion**

The food price hikes of 2007/2008 have led to a fundamental distrust in food markets in food producer and consumer countries alike and recourse to administrative measures, such as export restrictions or bilateral approaches of land acquisition. In order to avoid market failure and speculative overshooting, multilateral approaches to food security are necessary. Increasing agricultural production and productivity in developing countries and realizing fairer market conditions for them by reduction of US and EU agro-subsidies in the ongoing Doha round is one ingredient of such an approach. The Gulf countries could play a vital role here by coordinating their international agricultural investments with general development plans for agriculture on the national and international level such as the recent G8 initiative. An international food reserve is another important cornerstone of such a multilateral approach. By

improving transparency and reliability of markets it could help to avoid precipitate reactions as seen during food export restrictions in 2008.

## **About the author**

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# The Evolving Trade and Investment Relations between East Asia and the Gulf: From Oil Dependency to Free Trade Agreements

**John Sasuya**

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## **1. Introduction**

The current economic environment, in which the world economic recovery remains fragile following the financial crisis, has proved that continued structural reforms towards liberalization of trade and the pursuits of economic integration is essential. While there is seemingly increasing trade protectionism following the economic crisis, the call for more liberal policies to avoid further recession has intensified.

Economic difficulties in the United States and Europe made it difficult to export to these areas, as the economic crunch weighed heavily on consumers confidence and their buying power. The export-led economies in East Asia were the most affected by declining American and European demand. Meanwhile, the Gulf region had experienced severe economic losses on its international investment made through Sovereign Wealth Funds. At the same time, the slow-paced multilateral negotiations under the World Trade Organization were unable to resolve the complicated barriers, and hammer out the terms of further global trade liberalization. The 2009 Ministerial Meetings in Geneva failed to provide substantial progress in reconciling different interests and resolving outstanding issues. The continued failure to finalize the Doha Round is creating increasing apprehension about the future of trade liberalization under the multilateral framework, and generates the expectation that the benefits of more open and integrated economies will not be achieved in the near future.

The governments of East Asia and the Gulf regions have acknowledged the need for further opening of trade networks. Because of slow progress under the multilateral negotiations, both regions are searching for alternative arrangements to gain from liberalized trade. Bilateral, regional and intra-regional Free Trade Agreements have provided avenues to shift from WTO-led negotiations to alternative geometries. In East Asia, the most important FTAs include ASEAN and regional deals with Japan, China and South Korea. In the Gulf region, members of the Gulf Cooperation Council established an FTA and are in the process of implementing a full Common Market, while at the same time being part of the Greater Arab FTA. At the same time, several countries in East Asia are negotiating FTAs with the Gulf as a region. This development shifted the attention of East Asian and Gulf economic policy makers away from multilateral negotiations, laid the premises for a transformation of economic relations between the two regions from their traditional focus on oil dependency to greater diversification. The purpose of this paper is to explore this evolving nature of East Asia-Gulf economic relations. What are the underlying motives for policy changes? The first part examines oil dependency of East Asia on Gulf oil markets.

The second section delves into the changing trade and investment policies in East Asia and the Gulf, while the third part looks at the intra-regional dynamics between these two regions. The last part scrutinizes the policy challenges both regions are facing. At the end several policy recommendations are made to guide policy makers on the future of East Asia-Gulf relations.

## **2. East Asian reliance on Gulf oil**

For many decades, heavy dependency on hydrocarbon products characterized and dominated the trade relations between East Asia and the Gulf region. From the point of view of the East Asian economies, it is important to maintain a strategic alliance with the Gulf countries to ensure constant supply of oil. In 2007, East Asia imported about half of its oil requirements from the Gulf. With an expanding economy, East Asia's demand for petroleum products is increasing continuously. While Japan continued to be the biggest importer of petroleum from the region by purchasing about sixty percent of its total requirements from the Gulf, growing demand in the emerging economies, such as China and India, has further intensified the reliance of the region on the Gulf's petroleum industry. The region is also increasingly becoming the largest source of Liquefied Natural Gas (LNG) for China, Japan and South Korea. While Malaysia and Indonesia are the largest producers in East Asia, the development of the industry in Qatar and Oman has complemented the needs of East Asian markets.

Additionally, there is an increasing East Asian Foreign Direct Investment in the oil and petrochemical sectors of Gulf economies. Japanese companies have been investing in the region since the early 1960s. Japanese-owned Arabian Oil Company (AOC) operated the Khafji and Hout oil fields located in the Partitioned Zone between Saudi Arabia and Kuwait from the 1960s until the concession ended in 2000. When the concession on these oil fields expired, Japan was able to maintain its interest with a purchase agreement with Kuwait, so that AOC could buy 100,000 barrels per day for 20 years from the Kuwait Gulf Oil Company (KGOC), which overtook the oil fields' concession. The Kuwaiti company also accepted to utilize Japanese expertise on oil technology through a technical cooperation agreement. Another Japanese oil company which is active in the region are Inpex, and its subsidiary, Japan Oil Development Corporation, which made substantive investments in the United Arab Emirates offshore oil fields, such as Umm Shaif Field/Lower Zakum, Upper Zakum, Umm Al-Dalkh and Satah. Additionally, Sumitomo Chemical Co and Saudi Aramco have formed joint venture to build the Petro Rabigh Petrochemical Complex worth US\$ 12.5 billion. When finished the 23-plant project is expected to have a refining capacity of 400,000 bbl/day, a 92,000 bbl/day catalytic cracking plant, a 1.25m cracker that can make 1.25 M tonnes/year of ethylene and a gas processing facility that will yield 900,000 tonnes/year of propylene.

Meanwhile, Chinese companies also started to participate in the petrochemical sector of the Gulf. A joint venture company between SABIC and China Petroleum built a US\$ 1.7 billion plant in Tianjin with a capacity of one million metric ton ethylene derivatives (600,000 metric ton polyethylene and 400,000 metric ton of Ethylene Glycol) annually. On the other hand, South Korean firms are active on con-

tracting to develop some of the major oil fields in the region. In 2009, Abu Dhabi Gas Liquefaction Company had awarded a US\$ 1 billion to Hyundai Heavy Industries to build an integrated gas plant on Das Island. On the other hand SK Construction was contracted to build gas compressor units at the Bab oilfields developed by Abu Dhabi Company for Onshore Operations.

However, the recent evolution in the global trade regime encourages both regions to diversify their economic relations from oil-based trade and investments to an expanded one by negotiating bilateral FTA.

### **3. FTA policies and regional integration in East Asia**

#### **3.1 East Asia**

The first shift of economic policies from the multilateral framework to regional trade liberalization negotiations in East Asia was seen with the establishment of the Asia Pacific Economic Cooperation forum in 1989 and the ASEAN FTA in 1992.

Trade liberalization in APEC was emphasized by several declarations, the most important of which is the Bogor Declaration of 1994, which called for open trade and investments among its industrialized and developing member economies not later than 2010 and 2020, respectively. The 1995 Leader's Summit in Osaka, Japan and 1996 Leader's Summit in Manila, Philippines determined the phases and mechanisms of trade and investment liberalization for developed and developing member countries. However, trade and investments liberalization issues became contentious in the following years, as the western Pacific side of the region was heavily affected by the financial crisis.

In addition to that, there was a rift on how to proceed with the liberalization of agricultural and fisheries sectors. Japan, South Korea, China and other developing economies with large agricultural sectors opposed the system to call liberalize them. The contentions rooted from the Early Voluntary System of Liberalization (EVSL) on agricultural products. This system was established in the midst of slow implementation of Individual Action Plans (IAPs) to open the access for foreign markets and investors.

At the same time, ASEAN expanded its membership to include the region's transition economies. In addition to the FTA, the Southeast Asian countries also established the ASEAN Investment Area and ASEAN Investment Cooperation Organization (AICO) to boost foreign direct investment in the region. Soon after the implementation of the FTA, intra-regional trade within ASEAN gradually increased, reaching about 25 percent of the total trade. But very soon the Southeast Asian economies were affected by the financial crisis, and trade in the region contracted. As the economies were gradually recovering from the crisis, economic negotiations shifted from the regional framework to more bilateral FTAs.

The first bilateral FTA was signed between Japan and Singapore in 2002 and amended in 2007. For Singapore, it was important to seek market access because its economy relies heavily on trade, as the ratio of its total economic output to trade indicates. In 2008, Singapore's trade to GDP ratio was about 450 percent. For Japan,

this bilateral FTA represented an important change in its economic policies, because previously Japan had been critical of preferential regional and bilateral trading arrangement in many parts of the world, as they tended to isolate most of its economic interests in trade and investments. Soon after, many Southeast Asian economies, such as Malaysia, the Philippines and Thailand sought bilateral deals with Japan. Considering that these countries exports to Japan comprise almost the same products - such as agricultural and fisheries products, electronic machineries and electronic parts - it would be difficult for each one of them if it remained without an FTA with Japan.

Meanwhile, "ASEAN plus One" (either China, Japan or South Korea) FTAs, emerged recently as an alternative geometry for trade and investment liberalization in East Asia. In 2002, China announced that it would negotiate an FTA with ASEAN. It was signed two years later and entered into force at the beginning of 2010. Meanwhile Japan also negotiated a further expanded FTA with ASEAN, and the agreement came into force in 2008. Finally, South Korea and ASEAN signed an FTA in 2005 with a goal of exempting or reducing to less than 5 percent tariffs on 97 percent of South Korean exports to Southeast Asia by 2010.

### **3.2 Gulf region**

In the Gulf region, the Cooperation Council for the Arab States of the Gulf was founded in 1981. A Unified Economic Agreement was signed to promote economic harmonization and efficiency in the region. It was expanded in 2001 to coordinate the foundation for custom, trade and monetary union, including tools such as a common external customs tariff, common customs regulations and procedures, elimination of all tariff and non-tariff barriers among members and harmonization of investment-related laws and regulations. As a result, intra-regional trade had increased five-fold from US\$5.4 billion in 1988 to US\$ 33.9 billion in 2005. Additionally, the establishment of a common market facilitated the movement of citizens across borders to participate in investment and service activities, real estate and equities ownership and formation of corporations. The number of Gulf citizens who were granted licenses to practice economic activities in other GCC countries than their own multiplied three times from 4,750 in 1995 - a few years before the new economic agreement was ratified - to 14,655 in 2005 - after the ratification of the accord.

The number of joint stock companies in which citizens of other Gulf States may acquire equity increased from 42 in 1985 to 481 in 2005 and 524 in 2006. Kuwait has the largest number of joint stock companies whose equity may be owned by citizens of other Gulf countries- 181 in 2006. At the same time, the total capital of these joint stock companies grew from US\$ 22 billion in 1985 to US\$ 76 billion in 2005 and US\$ 93 billion in 2006. Saudi Arabian stock companies have the largest equity base, which constituted about half of the total capital on tender.

The GCC also agreed to renew the joint industrial development in the region by launching joint infrastructure projects and encouraging cooperation in basic services such as transport, communications, electricity; information technology; health, education, and tourism projects; and the oil and gas industry.

The GCC is also part of the larger, Greater Arab Free Trade Area, which in 1997 agreed to reduce tariff and other barriers gradually. The target date for full imple-

mentation was moved from 2008 to 2005.

As a block, the GCC is also actively pursuing several FTAs with non-Arab partners. Negotiations for an EU-GCC FTA started already in the 1990s, but have not been concluded yet, due to the political clauses demanded by the EU, concerning democratization and human rights. Aside from that, the GCC signed FTAs with Syria and the European Free Trade Association (Iceland, Lichtenstein, Norway and Switzerland) in 2008, and is currently negotiating with Australia, Jordan and Turkey.

#### **4. Drivers of East Asian-Gulf FTAs and integration**

The shift towards bilateral free trade arrangements could also be traced to increasing regional integration outside these two regions, including the establishment of the North America Free Trade Area and the expansion of the European Union. This means that without their own preferential trading arrangements, East Asia and the Gulf could be in disadvantageous position, as these regions could not trade at privileged tariff and other trade measures such as faster custom clearance and rule harmonization, with the members of FTA elsewhere in the world. Regional arrangements are also used to advance trade interests during negotiations at the WTO.

In addition to the trade creation effect of the regional and bilateral trade agreements, another economic driving force is related to foreign direct investments. Most bilateral and regional trading arrangements are WTO-plus, which means that besides the liberalization packages under the auspices of the WTO, the countries involved entered into several other agreements to further liberalize their economies. These new agreements involved investments provisions, competition policies and cooperation on technology and knowledge transfers.

On the other hand, while their economic benefits are evident, bilateral and regional trading arrangements also create trade diversions and protectionism. Efficiency of production could be affected, as market share is diverted from more efficient producers in non-member countries to less efficient producers in member economies. It could also mean that trade and investments could slip out from these regions to other areas if there are no comprehensive economic agreements between them, while they have with others. For instance, Gulf region imports most of its electronic manufactured goods from East Asian markets, which has relative advantage on this sector. If the Gulf continues to pursue FTAs with Europe and the US, it could import much of its requirements from these areas because of preferential treatments, thereby diverting trade from East Asia. This could also happen to other sectors such as petrochemical, automobile and transport equipments, steel and agriculture and fisheries, among others. As direct investments and business facilitations are becoming an integral part of FTA, its growth could be jeopardized without comprehensive agreements. Japan is one of the most active direct investors in many regions While China is one of the biggest recipients of investments, many of its large companies are starting to move overseas, which could benefit the Gulf region in its diversification initiatives. On the other hand, the Gulf region has plenty of petrodollar surpluses, which is evident on its large Sovereign Wealth Funds. These funds could be used to invest in sectors such as petrochemical and Islamic finance. It is for these reasons that East Asia and the Gulf are approaching the recent FTA trend with economic pragmatism.

The trade between East Asia and the GCC continued to increase in recent years. The intra-regional trade had increased 20 percent from US\$19.1 billion in 1996 to US\$22.9 billion in 2007, as seen in Table 1. While in the past, more than half of this trade based on hydrocarbon products, a new structure of trade relations between East Asia and the Gulf economies is emerging with the conclusions of FTAs between them.

The first FTA to be signed involving East Asia and the Gulf regions was the GCC-Singapore agreement in 2008. While Singapore had several bilateral FTAs previously, the agreement was the first for the GCC as a bloc, which signaled the GCC's desire for further trade liberalization in the midst of deadlock of its negotiations with EU. The GCC was Singapore's sixth largest trading partner, with bilateral trade reaching a record high of US\$ 28 billion in 2007. The agreement allowed tariff elimination for about 99 percent of goods traded between Singapore and the GCC. It also involves agreements on investments and movement of business people to facilitate greater economic activity in areas such as construction and computer, environmental and professional services. For instance, under this agreement Qatar could license wholly owned Singaporean companies to set up businesses if they demonstrate sufficient expertise in any economic sector. This is a preferential treatment, as Qatar only allows less than 50 percent foreign equity participation. For Singapore, the accord could also be a tool to tackle the current financial crisis, as Prime Minister Lee Hsien-loong argued at the signing of the agreement: "we are tackling immediate problems but at the same time, we are also putting in place measures which will be beneficial to our economies in the middle- to long-term, and this GCC-Singapore FTA is one example of that" as a response to the global financial crisis.<sup>1</sup>

Meanwhile, the GCC also started to negotiate FTAs with Japan and South Korea. In 2005, *Nippon Keidanren*, the largest association of businesses in Japan, called for early negotiations for preferential trading agreement with the GCC bloc. The proposal was rooted on the fear that the "competition among the leading countries and regions of the world is currently intensifying in the GCC markets, and the GCC countries have already started negotiating free trade agreements (FTAs) with these countries and regions, excluding Japan. Japan cannot afford to be left behind such initiatives taken by other countries and regions."<sup>2</sup> In addition to obtaining preferential treatment for automobiles, auto parts, and trucks in the category of transport equipment; and for electronic and electronic parts (these two products categories accounts for most of Japanese exports to GCC), Japan was also keen on negotiating away the restrictions imposed on foreign capital, the maximum allowed equity participation of foreign investors (which is under 50 percent without the agreement), and the requirement to employ local workers. Japan also wished to expand GCC's preferential treatment to the petrochemicals, electric power and water supply sectors. Already, Japan is one of the biggest investors in the GCC's petrochemical sector but it was eager on displaying its latest cutting-edge and environment-friendly technologies. Once the FTA is signed, the GCC could attract massive investment from Japanese companies; in 2006 these stood at US\$ 2.038 billion in Saudi Arabia, US\$ 1.09 billion in UAE, US\$ 419 million in Qatar, US\$238m in Bahrain and \$21 million in Oman.<sup>3</sup>

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1 *The Singapore Strait Times*, "Singa'pore, Gulf states sign landmark trade pact," 16 December 2008.

2 Statement of the *Nippon Keidanren*, 13 September 2005.

3 *Emirates Business*, "UAE-Japan to benefit from FTA", 24 June 2008.

Japan and the GCC started to negotiate a preferential trading arrangement in September 2006 and held two rounds of negotiations until January 2007. After that, there were no high-level consultations, which created mixed signals on how the trade policies between the two countries would proceed. On the other hand, GCC's FTA negotiations with South Korea gained much faster momentum, as three high-level negotiation rounds were held since President Roh Moo-hyun visit to the region in March 2007. The bilateral FTA could increase South Korean investment in the construction and shipbuilding industries, in addition to its existing contracts to build petrochemical plants, financial centers and transportation infrastructures in the region. For instance, Korea's currently negligible US\$ 180 million direct investment in the Emirates is deemed to have the potential to expand fivefold if the bilateral agreement is signed. The FTA is expected to be signed at the end of 2009 or early 2010.

On the other hand, Gulf countries also started to invest in other East Asian countries, although there were no substantial negotiations for an FTA. In 2008, during the visit of Indonesian President Susilo Bambang Yodyohono to the region, several investments agreements were signed including Ras Al-Khaimah Investment Authority projects to construct an integrated port at Tanjung Api-Api and a railway line from Palembang to Tanjung Api-Api worth US\$1.3 billion. Qatar Telecom became the majority owner of the Indosat in 2008 with the increase of its share from 29 to 65 percent with an investment worth US\$ 1.8 billion. Meanwhile, the Saudi Binladin Group had started financing its agricultural projects in the Indonesian island of Papua. The project which has estimated price tag of US\$ 4.3 billion would ensure reliable supply of rice and other agricultural products for the Saudi market.<sup>4</sup> In 2009, the Far East Agriculture Company, a group of ten Saudi companies, discussed with the Philippine government to set up joint ventures to produce and trade agricultural products such as banana and pineapple.<sup>5</sup> On the other hand, Qatar Telecom also entered the Philippine telecommunication market with the acquisition of the 33 percent ownership of the Liberty Telecoms. It also entered a joint venture project with the San Miguel Corporation to enter in the broadband and mobile telecommunication in the Philippines. The project has yet to commence. Meanwhile, the Malaysian government and Saudi Arabia's Petro Saudi International have set up a US\$ 2.5 billion investment fund in Malaysia in 2009. Petro Saudi would invest US\$ 1.5 billion while remaining capital would be raised by the Malaysian government through bond offerings. The investment fund would be used to finance renewable energy and real estate projects.<sup>6</sup>

It is not only through trade and investments that these two regions are cooperation, but Japanese and South Korean also on contracting large-scale infrastructure projects in the GCC. Before 2009 ended, Korea Electric Power Corp (KEPCO) -led consortium won landmark contract to build four nuclear reactors in the United Arab Emirates. The project, which is valued at around US\$ 20 billion, also involved Korea's Samsung and Hyundai.<sup>7</sup> The project, which is considered as the region's largest-ever

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4 However, it is being delayed due to difficulty to acquire several land parcels from local population. *Reuters*, "Indonesia says land acquisition stalls Binladin rice investment" 26 October 2009.

5 *The Philippine Daily Inquirer*, "Saudi firm looks at Philippines as food hub" 23 September 2009.

6 *Reuters*, "Malaysia gets \$1.5bn Saudi investment" 30 September 2009.

7 *Wall Street Journal*, "South Korea Consortium Gets \$20.4B UAE Nuclear Contract" 28 December 2009.

energy deal, is described by UAE President Sheikh Khalifa bin Zayed al Nayan as a "new stage of strategic partnership" between the U.A.E. and South Korea." Korean companies are also active in constructing high-rise building in the UAE. The most prominent of which is the newly-opened, Burj Khalifa, in which Samsung Engineering and Construction Group is the main contractor.

In Saudi Arabia, KEPCO also won a contract to from Saudi Electric Company (SEC) to build, own and operate a power plant for a period of 20 years until 2033. The project which, cost US\$ 2.5, is expected to generate 1,200-megawatt of power supply for the western city of Rabigh.<sup>8</sup> Another South Korean infrastructure conglomerate, Doosan Heavy Industries and Construction, was awarded contracts to build a 1,330-megawatt power plant near the eastern city of Damman. The project which cost US\$ 1.05 is expected to be operational by 2013.<sup>9</sup> Samsung Engineering was contracted to build two refinery plants of the Jubail Export Refinery Complex project under the consortium of Saudi Aramco and Total of France, which amounted to US\$ 1.6 billion. In Qatar, Hyundai Engineering and Construction, together with Italy's Saipem were awarded the contract to build a fertilizer plant worth US\$ 610 million by Qatar Fertiliser Company.<sup>10</sup>

Meanwhile, Japanese companies are active in building the urban railway projects in Dubai. In July 2005, the government had awarded the US\$ 3.4 billion contract to Mitsubishi-led consortium to build the planned 69.7 kilometer Dubai Metro lines.<sup>11</sup> The consortium also involved Obayashi and Kajima of Japan, and Yapi Merkezi of Turkey. On the other hand, Marubeni, Hitachi, Obayashi were contracted by Dubai's Nahkeel to built the passenger monorail system, which will connect the city's mainland and the reclaimed Palm Jumeira island.<sup>12</sup> Other Japanese companies, which are involved in the project included Nippon Signal Company and Omron Corporation.

## **5. Overcoming trade and investment policy issues in East Asia and the Gulf**

The momentum on inter-regional preferential trade agreements, although constantly delayed by deadlocks on specific trade barriers, seems to continue as additional countries in East Asia are expected to negotiate FTAs with the GCC, including China, Malaysia and Thailand. However, the two regions need to overcome some policy challenges within the domestic spheres. These challenges include the reliance on subsidies, import quotas and high import tariffs to protect inefficient domestic industries. In both regions, agriculture production is heavily protected and, not only from trade but also from foreign investment. In Japan, agricultural production is subsidized by the government through preferential loans and development assistance while main-

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8 *Energy Business Review*, "KEPCO-led Consortium Signs Contract With Saudi Electricity Company" 13 July 2009.

9 *Business Middle East*, "South Korea's Doosan wins US\$1.05 billion Saudi power plant deal" 17 September 2009.

10 *Maktoob Business Online*, "Hyundai, Sepiem win \$610 mln Qatari contract" 11 October 2009.

11 *International Railway Journal*, "Dubai Metro contract awarded" July 2005.

12 *Japan Corporate News*, "Marubeni, Hitachi, Obayashi, Others Sign Dubai Monorail Construction Contract" 28 December 2005.

taining very high duties on inbound agricultural products, which currently stands between 4.5 to 130 percent. In South Korea, the inbound tariff ranges from 20 to 180 percent. In fact, these protectionist measures were the cause for several deadlocks when Japan and South Korea started negotiating FTAs with Malaysia, the Philippines and Thailand, which were agriculture export oriented economies. For instance, Thailand's apprehension for signing the FTA with South Korea stemmed from the latter's refusal to reduce the tariff on Thai rice imports. As put forward by Deputy Prime Minister and Commerce Minister Somkid Jatusripitak, "rice is a very important issue for Thailand because 70 percent of our people are farmers"<sup>13</sup> Thailand also refused to allow foreign full-ownership of any company in the agricultural sector. In Malaysia, barriers on trade and foreign direct investments are more all-encompassing, with the continuing implementation of the Bumiputera development policy, which prioritizes the majority yet economically marginalized ethnic Malay population in every sector of the economy. The agriculture sector, particularly production of palm oil, is protected through high duties on foreign imports, and exports are promoted through export allowances and export credit schemes at a preferential rate. Therefore, if the GCC would like to sign FTA with agriculture export based countries in East Asia, it has to substantially reduce its agricultural tariff. In the UAE the final bound duties for agricultural products currently stands between 15 to 135 percent, while Saudi Arabia imposes duties between 13 and 168 percent.

Trade barriers also hinder free trade in the manufacturing sector. As part of the Bumiputera policy, Malaysia imposes high tariff on automobile imports to protect Proton. Although Thailand has no nationally-owned automobile companies, the country is protecting and promoting the industry as part of its industrialization goal, including becoming an automobile manufacturing hub. Textile industry is also protected in Thailand as it imposes 20-30 percent tariff on all imports. Meanwhile, China also discourages trade through its Policy on Development of the Automotive Industry and Steel and Iron Industry Development Policy, which limits imports of automotive parts, steel and iron while at the same time promoting the use of domestically manufactured products.

In the area of foreign direct investment, most of the restrictions in the two regions are related to foreign ownership of several industries. Malaysia is limiting foreign ownership to 30 percent in sectors such as telecommunications, distribution and commercial banking. Foreign ownership in Thailand's financial sector is also limited to 49 percent while at the same time foreign banks are restricted to establishing no more than a single branch, and with limited personnel. In China, restrictions on financial sector include 25 percent maximum foreign ownership in a Chinese bank. If the foreign equity increases beyond 25 percent, the bank will be classified as foreign financial institution, thus more restrictive policies would be imposed. Investment in the insurance sector is limited to joint ventures, while in the telecommunication sector it is limited to 49 percent for landline phone businesses and 50 percent for value added-telecommunication sector. Aside from restrictions on equity, FDI in China is also limited by divestment policies, wherein the transfer of capital to the offshore market requires the approval of several regulatory agencies.

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13 *Asian Economic News*, 10 December 2005

Likewise, the GCC economies also maintain several limitations on foreign investment. In Kuwait foreign companies are not allowed to engage in the upstream oil hydrocarbon production, while limited joint ventures between Kuwaiti and foreign companies in petrochemical sector are allowed.

In Bahrain, although foreign distribution services companies could establish branches in the country, they are not permitted to engage in direct commercial sales in the domestic market, including wholesale and retail. The UAE permits 100 percent ownership of companies within the free trade zones but only up to 49 percent outside the area. While the UAE central bank permits foreign banks to operate limited branches, it is prohibited from granting new licenses to foreign banks to operate as full fledged financial institutions. Other services sectors, such as telecommunications, remain closed to foreign ownership.

Saudi Arabia maintains severe restriction on foreign ownership in the country. Foreign entities are allowed to own up to 60 percent but they are still prohibited from participating in the stock markets in the country. The cap on foreign ownership is much lower in the banking sector, where maximum foreign participation is 40 percent. Moreover, foreign investors are only allowed to own no more than 10 percent of an investment funds in the banking sector but nonetheless, permitted to own private banks with a 60 percent ownership limit. Also, the Kingdom's Supreme Council approved a decree prohibiting foreign participation in investment related to oil exploration, drilling and production, and those related to military hardware, which are reserved to the state.

Another obvious restriction on foreign ownership is real estate property rights. Although citizens of the Gulf region are allowed to own limited real estate within the region and outside their own country, other foreigners are prohibited to own real properties at varying levels. In the UAE, foreign nationals, outside the GCC, are not allowed to own parcel of lands. However, they are allowed to own buildings under a free-hold system of varying duration. In Qatar, foreign investors are limited to lease land for not more than 50 years and subject to government approval thereafter. However, Qatar permits foreign entities to own units in some of Qatar's residential blocks, subject to residency permit given by the state. The same arrangement is found in Bahrain, but it also allowed foreign entities to own properties in tourism and financial sectors.

Evidently, there are policy issues in which both East Asia and the Gulf must overcome if they want the momentum of intra-regional trading and investment arrangements to move forward at much faster rate. First, in order to lessen the adjustment burden of sensitive industries in these regions as highlighted above, it is important to implement immediate structural adjustment. Structural adjustments are economically important in order to achieve efficiency. Nonetheless, they are politically difficult to implement. A win-win solution could involve gradual implementation of restructuring processes coupled with social adjustments such as compensation, reeducation and job training for the sector that will be affected by the reforms. In Japan, structural adjustments in agricultural policies is integrated in its FTA policy agenda, thus, there is a precedence, in which other countries could take into consideration.

Trade and investment facilitation should also part of any comprehensive economic agreements. This procedure is wider in context, which not only involves tariff rate reduction but also harmonization of trade and investment related procedures and

standards. It also involves simplification of rules of origins. Furthermore, it is important to initiate private sector development, and promote them through intra-regional networks, because ultimately, it is the private sector which will facilitate the implementation of any trade and investment agreements.

On the political side, the head of states of both regions should consider a summit together in order to promote a deeper intra-regional integration. Without any profound political support, the momentum and enthusiasm towards intra-regional integration could decline. Therefore, the governments of these regions should give a serious consideration on the importance comprehensive economic relations in their overall economic development policies. Equally important is the role of academic institutions to conduct different researches, such the effect of future intra-regional agreements, and make substantial policy recommendations to facilitate the decision making processes of government officials.

Lastly, while there challenges on trade and foreign investment in both East Asia and the GCC, the recent policy shift to liberalize the economy through bilateral free trade agreements is a positive move to reap the economic benefits of economic interdependence. These benefits include increased trade and investment through competition and efficiency, which could catalyze the expansion of economies. Indeed, the global trend of liberalizing economies through FTA facilitates the convergence of East Asia and the GCC economies by encouraging countries on both sides to negotiate and compete for better preferential treatment on trade and investments. This recent trend also shows the development of economic relations between East Asia and the Gulf from a more oil-centric trade and investment to more diversified one.

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**Table 1** East Asia-GCC trade (US\$ thousands)

|             | Bahrain   |           | Kuwait     |            | Oman       |            | Qatar      |            | Saudi Arabia |             | UAE        |             | Total       |
|-------------|-----------|-----------|------------|------------|------------|------------|------------|------------|--------------|-------------|------------|-------------|-------------|
|             | 2006      | 2007      | 2006       | 2007       | 2006       | 2007       | 2006       | 2007       | 2006         | 2007        | 2006       | 2007        |             |
| Brunei      | 22        | 0         | 0          | 38         | 83         | 163        | 40         | 31         | 1692         | 569         | 3070       | 3775        | 9483        |
| Cambodia    | 6         | 95        | 0          | 3987       | 293        | 99         | 371        | 652        | 4488         | 1798        | 3528       | 7527        | 22844       |
| China       | 395,267   | 582,192   | 2,785,311  | 3,629,256  | 6,469,015  | 7,270,291  | 998,790    | 1,208,882  | 19,211,577   | 11,383,283  | 14,201,525 | 20,035,647  | 881,710,366 |
| Indonesia   | 70,307    | 73,723    | 1,597,188  | 1,835,187  | 57,924     | 103,221    | 155,094    | 282,328    | 4,056,463    | 4,317,111   | 1,413,396  | 1,515,232   | 15,477,174  |
| Japan       | 1,077,464 | 1,104,913 | 10,290,290 | 11,581,240 | 4,404,148  | 6,106,411  | 16,255,864 | 18,762,963 | 40,457,905   | 70,859,397  | 37,622,488 | 40,410,497  | 258,933,580 |
| Laos        | 1         | 0         | 0          | 92         | 0          | 580        | 0          | 0          | 131          | 365         | 215        | 687         | 2071        |
| Malaysia    | 195,022   | 183,883   | 468,169    | 767,405    | 984,507    | 619,433    | 266,138    | 316,487    | 2,920,028    | 2,833,175   | 3,234,872  | 4,238,876   | 17,027,995  |
| Myanmar     | 1445      | 1095      | 0          | 5440       | 1766       | 1126       | 10         | 0          | 794          | 2372        | 32165      | 40265       | 86478       |
| Philippines | 12,455    | 21,882    | 75,431     | 92,295     | 1,726      | 2,212      | 52,058     | 351,284    | 3,136,261    | 3,723,954   | 524,322    | 1,501,024   | 9,494,904   |
| Singapore   | 411,593   | 306,330   | 4,633,203  | 5,322,011  | 327,939    | 382,997    | 2,616,743  | 4,432,327  | 10,045,159   | 9,639,560   | 7,359,573  | 8,083,469   | 53,560,904  |
| South Korea | 466,268   | 522,422   | 8,803,100  | 10,052,530 | 5,473,031  | 4,356,305  | 7,745,311  | 9,617,362  | 23,530,408   | 25,188,996  | 15,826,851 | 16,360,649  | 127,943,233 |
| Thailand    | 295,862   | 225,346   | 480,778    | 385,397    | 3,020,028  | 2,876,533  | 1,753,114  | 2,265,835  | 5,505,567    | 6,001,976   | 8,670,806  | 9,071,487   | 40,552,729  |
| Vietnam     | 14,224    | 12,941    | 156,022    | 41,145     | 9,428      | 21,250     | 35,452     | 83,994     | 151,584      | 182,617     | 184,616    | 344,227     | 1,237,500   |
| Total       | 2,939,936 | 3,034,822 | 29,289,492 | 33,716,023 | 20,749,888 | 21,740,621 | 29,878,985 | 37,322,145 | 109,022,057  | 134,135,173 | 89,077,427 | 101,613,362 |             |

Source: International Trade Center



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# Gulf-South Asia Economic Relations: Realities and Prospects

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## 1. Introduction

Economic relations between the Arabian Gulf region<sup>1</sup> and South Asia<sup>2</sup> go back many centuries. The earliest trading between the Tigris and Euphrates and the Indus Valley went along the Gulf coast. The byzantine commercial linkage dates back to the Late Antiquity, which witnessed expansion of sea-borne trade as a direct result of the conflicts between two major centralized empires-Persian and Roman. The enormous output of Arabic Sasanian coinage further demonstrates the acceleration of trade between these two regions. The civilizational link strengthened over the next thousand years, with the British Raj establishing protectorates along the Arabian Gulf coast in the 18th century which were administered from Delhi, in order to protect their vital trade route. The major thrust came in the 1970s, with the increase in the price of oil and consequent economic development in the Gulf, which propelled large-scale manpower and goods imports from the Indian sub continent. As a result, the commercial interaction between these two regions intensified, both in scope and in depth, to reach the current phase of vibrant ties.

Throughout this period, Gulf-South Asia economic relations have developed through a kaleidoscopic of shifting patterns. Today, Gulf and South Asia are on the cusp of an economic renaissance. Gulf-South Asia economic relations are now firmly entrenched in a new strategic geoeconomic tapestry involving energy and petro-dollar investment flowing east from the Gulf and cheap consumer goods, knowledge-driven technologies and migrant labor, flowing west from South Asia. This new economic symbiosis is gaining prominence in the contemporary post crisis world economic order due to the structural comparative advantages of both the regions. Looking forward, it is certain that the economic fortunes of the two regions are fast becoming mutually reinforcing due to increasing economic interdependence.

The main objective of this paper is to analyse various facets of the Gulf's economic engagement with South Asia and highlight the challenges and opportunities for deepening engagement with reference to the current global economic slowdown. After a brief macroeconomic overview of the two regions, the focus shifts to the analysis of trading patterns between them over the last five years. The next section

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1 In this paper, the Arabian Gulf region is confined to the member countries of the Gulf Cooperation Council namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

2 For analytical convenience, the geographical coverage of South Asia region is confined to large countries namely, Bangladesh, India, Pakistan and Sri Lanka.

deals with interregional investment flows and their outlook in the near future. The next section unravels the intricacies of interregional energy trade which is fundamental to the sustenance of Gulf-South Asia economic engagement. Then, follows a section on the labor movement from South Asia to the Gulf. The next section highlights South Asia's significance for Gulf's food security. The last section summarizes the main points and highlights the prospects for enhancing engagement in the future.

## 2. Neo-economic powers with resilient growth

The phenomenal economic rise of the GCC bloc and South Asia led by India is one of the hallmarks of the present century. High economic growth rates combined with the Gulf's substantial financial liquidity have given these two regions increasing bargaining power in the global economy. It is not just their increasing global role, however, but also the growing ways in which they complement each other that are reshaping their relations. These two regions are poised to become major global economic players in a reshaped world. Table 1 depicts latest macroeconomic trends of the GCC and South Asia.

**Table 1** Broad macroeconomic indicators, 2008

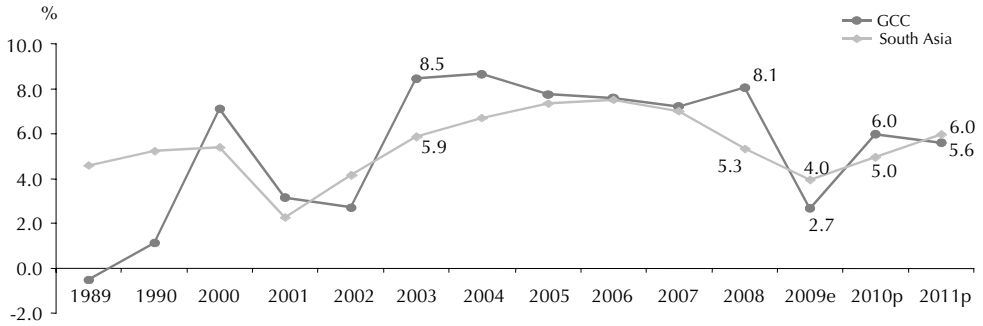
| Macro Indicators                         | Gulf Cooperation Council | South Asia |
|------------------------------------------|--------------------------|------------|
| Population, total (millions)             | 37.8                     | 1552       |
| Population growth (annual %)*            | 3.8                      | 1.4        |
| Surface area (sq. km/thousands)          | 2572.3                   | 4293       |
| Nominal GDP (current US\$ billions)      | 1073.2                   | 1542.6     |
| Nominal GDP Per capita (current US\$)*   | 43650.2                  | 1162.5     |
| Real GDP growth rate (Annual % change)*  | 8.1                      | 5.3        |
| Inflation, end of period (annual %)*     | 10.6                     | 8.7        |
| Current account balance, Billion Dollars | 282.2                    | -34.5      |
| FDI Inflows (billion\$)                  | 63.4                     | 48.8       |
| FDI Outflows (billion\$)                 | 29.7                     | 17.8       |

Note: \* simple average

Sources: International Monetary Fund, *World Economic Outlook*, October 2009; UNCTAD, *World Investment Report*, 2009; World Bank, *World Development Indicators*, 2008.

Since 2003, GCC and South Asia have embarked on a higher growth trajectory, making the two regions fastest growing globally (See Figure 1). This dynamism is broad-based and is a sub-regional phenomenon. Among the contributing factors to the dynamism have been the ability of South Asia to mobilize domestic resources and structural transformation in favor of services and industry; and the GCC's oil fuelled economic boom and accelerated economic diversification with mega investments in cluster industries, particularly in metal and petrochemical byproducts and services sector. The growth outlook for 2010 and 2011 for both regions continues to remain robust, despite the global slowdown although some deceleration in growth is expected.

**Figure 1** Real GDP growth rate (annual percent change)



Note: e means estimated; p means projected.

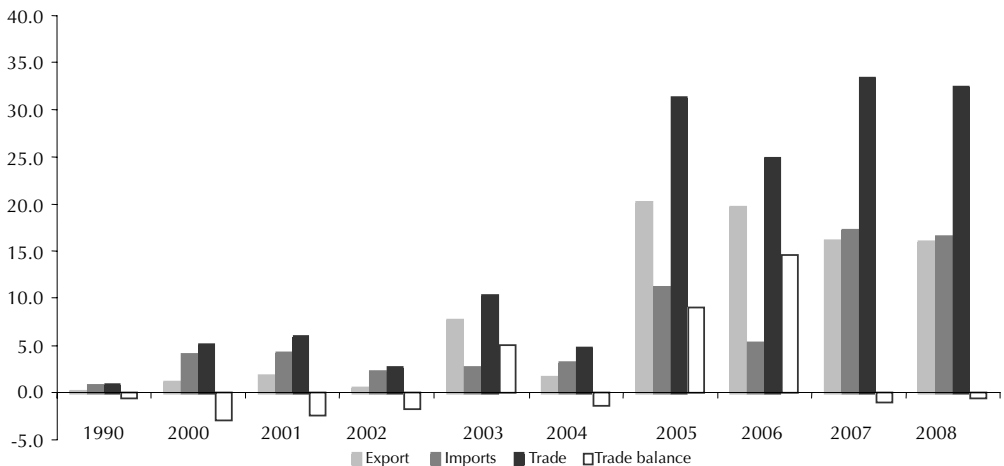
Source: IMF Data Mapper, October 2009

### 3. Bilateral trade: high growth in volume, yet, less diversified

Trade between the Gulf and South Asia has an ancient history dating back to the Silk Road. While trade along the Silk Road sank into oblivion due to the downfall of the Roman Empire; trade between the Gulf and the sub-continent remained brisk, to such an extent that the Indian rupee was widely circulated as currency in the Gulf countries from medieval times onwards. Particularly in the early and mid 20th century, the Indian Rupee was widely adopted as legal tender in the Gulf countries and even adopted as local currency, in the form of the Gulf rupee between 1959 and 1966.

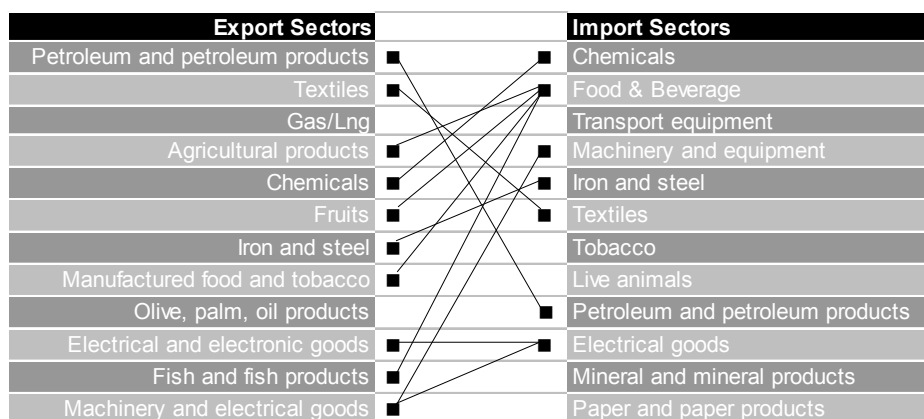
Over the last decade, trade relations between the two regions have developed by leaps and bounds. In the past five years (2004-2008), trade volumes between the Gulf and South Asia have increased more than six-fold, and much of the incremental demand for Gulf exports going forward - not just for oil and gas but also petrochemicals, base metals and services such as finance and tourism - are coming from South Asia and the Asia region as a whole. In 2008, GCC-South Asia trade stood at \$ 32.4 billion (See Figure 2).

**Figure 2** GCC-South Asia trade (US\$ billions)



Source: UN COMTRADE Database, 2009.

**Figure 3** Trade complementarities, GCC-South Asia, 2008



Source: UN COMTRADE Database, 2009.

South Asia is one of the major Asian trading partners for the GCC, accounting for nearly 5 percent of GCC's world trade. It is also important to note that trade between the two regions is largely based on export-import complementarities, suggesting increasing economic interdependence and convergence in the future (See Figure 3).

Moreover, recent growth resurgence in both regions has been accompanied by their more vigorous participation in international trade and South Asia in particular has emerged from the past five years with a deeper integration with the world economy. There is also greater intra-regional trade within South Asia and the GCC, although at a somewhat lower level in comparison to other regions. The GCC is rapidly becoming a global trading bloc with total merchandise trade of nearly \$833 billion in 2008. The GCC's world trade increased by an annual rate of 27 percent between 2003 and 2007. Although intra-GCC trade is still relatively low - with exports of \$46.6 billion in 2007 - it is increasing at a brisk pace, growing at an annual rate of 32.4 percent between 2003 and 2007. These trends imply that GCC economic integration is maturing slowly and intra-GCC trade is mostly concentrated on exports. This means Gulf countries will continue to depend on imports from outside the region, a fact that helps to account for the growth in imports from South Asia. Simultaneously, GCC is increasingly emerging as global exporters in terms of petrochemicals and processed metals in which South Asia is import dependent due to increasing regional demand.

However, until today, the trade profile is not so diversified and also heavily concentrated on the consumption patterns and consequent imports of goods catering to the South Asian expatriates living in the GCC<sup>3</sup> and GCC's energy exports (oil and gas) to the subcontinent. For example, empirical evidence<sup>4</sup> shows that India has huge export potential in the GCC countries except UAE and Saudi Arabia. This is mainly

3 Karayil, Sajitha Beevi 'Does Migration Matter in Trade? A Study of India's Exports to the GCC Countries', *South Asia Economic Journal*, 2007, Vol. 8, No. 1, pp. 1-20.

4 Pradhan, Samir Ranjan, 'India's Export Potentials in the GCC: A Gravity Model Analysis', UNESCAP, ARTNeT Report, Bangkok, 2007, available under [www.unescap.org/tid/artnet/pub/gcc\\_pradhan.pdf](http://www.unescap.org/tid/artnet/pub/gcc_pradhan.pdf)

due to the fact that both Saudi Arabia and the UAE are India's largest trading partners in the GCC, so unless India's export profile to these countries is diversified, the existing potentials cannot be exploited.

Importantly, there are structural barriers that continue to hamper seamless economic exchange between these two regions. GCC countries face formidable barriers, in terms of higher duties on their exports to South Asia in general and India in particular. Whereas, exports from South Asia face a nominal duty of 5 percent and in many cases a lower rate ranging from 1.5 percent to 2 percent in the GCC. In addition, South Asia's inadequate trade infrastructure hampers GCC exports with cost escalation and longer administrative procedures for trade facilitation. Transitory policies, such as export restrictions, also act as a dampener in GCC-South Asia trade. In 2007, India's export ban on non-Basmati rice had a direct negative effect on the rice prices in the GCC, as it is a lifeline consumption item of majority of South Asian expatriates. Moreover, in the aftermath of the current economic downturn, South Asia led by India is increasingly becoming protective, while the GCC is, as usual, liberalizing as they are more import dependent<sup>5</sup>. For example, as of 2010-01-25 (12.14 pm), India is reported to have undertaken 12 trade distortionary measures, affecting GCC member states. Although it is premature to gauge the exact impact on the GCC, it is certain that protectionist state measures could act as a major hindrance to augment economic relations between the two regions.

Of late, GCC countries are entering into preferential trading arrangements with major Asian countries. One of the major landmarks is the GCC-Singapore Free Trade Agreement, which was concluded on January 31, 2008. This milestone could serve as a catalyst for other FTAs under discussion with South Asian countries such as India and Pakistan. Even though bilateral negotiations for an FTA with India started in 2004, the progress is slow due to lack of policy consensus on both sides. Therefore, in the current global trade environment, seething with protectionist tendencies, GCC and South Asia need to re-energize policy strategies in order to enable a level playing field for sustaining their burgeoning trade relations.

#### **4. Bilateral investment: wealth-opportunity linkage**

Another important factor driving ties are wealth-opportunity linkages. GCC foreign assets are estimated to have exceeded \$900 billion in the five years ending June 2008, with US-based assets (equities, debt and deposits) accounting for more than one-third of Gulf investment. But an estimated \$60 billion worth of GCC investment went into Asia, and that is likely to increase. In the last few years, there has been a change in the investment patterns preferred by GCC investors, from capital preservation to yield maximization. This has led to greater emphasis on portfolio diversification and an appetite for riskier assets, as well as a preference for direct management of assets rather than outsourcing them to international financial institutions.

Moreover, Gulf investors still face an array of constraints and barriers to invest-

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5 For detail trends pertaining to state measures undertaken as a response to the current global economic downturn in South Asia and the GCC, see Global Trade Alert Database at <http://www.globaltradealert.org/site-statistics>.

ment in the West, especially after the September 11 attacks - from official obstructionism to regulatory hurdles to difficulties in finding quality assets. As a result, Asia has become a logical alternative - with China and India ranking first and second, respectively, for new global investments from the Gulf. Liberalized investment regimes, ease of entry and exit, high rates of return and favorable geopolitical trends all favor strategic diversification into Asia. The last few years have seen numerous joint ventures and mergers and acquisitions between GCC entities and Asian companies in the areas of infrastructure, construction and downstream oil projects. Joint investment funds like the Saudi-India Investment Fund, Kuwait-India Investment Fund, among others, have also emerged. Gulf-based investors announced some \$150 billion in long-term infrastructure investments in Asia in 2005-2006. The Dubai International Financial Centre has suggested that the GCC countries could pump as much as \$250 billion into Asia over the next five years.

It is apparent that the current financial crisis and the pernicious effects on the real economy of both regions are having an impact. This is largely reflected in a drop in demand for oil, petrochemicals, related service sectors and manufacturing. But South Asia's strong economic fundamentals and GCC's cumulative capital surplus could help mute the negative effects. The outlook for oil prices remains uncertain, but prices should average around \$60 a barrel in 2009, not far below the average for 2007. A slight increase to around \$75 a barrel is envisaged for 2010 as global demand begins to recover, largely based on strong demand in Asia. Given this, GCC capital outflows are expected to amount to about \$430 billion between June 2008 and June 2010.

Moreover, because developed countries have been the chief victims of the global financial crisis, Gulf sovereign wealth funds are rethinking their approach to Asian markets. While many Western economies are in the grip of recession, India's GDP growth for 2008-2009 has been revised to 7-7.5 percent, down from 9 percent. According to one report, GCC investors are set to increase their allocations to the Asian region from 30 percent of their portfolios to 40 percent, and shift away from riskier equity-linked and real estate assets to real economy assets in Asia with secure rates of return. GCC investors are looking for strategic investments in key sectors such as petrochemicals, logistics, tourism, mining, agriculture and renewable energy, which are not cyclical and can assure sustainable returns. Opportunities for investments in these areas in a number of Asian countries have become attractive for GCC investors.

However, the main hindrance has been lack of institutional arrangements to facilitate bilateral investment, which therefore again highlights the importance of a preferential agreement. As it is being widely recognized that both regional economies are resilient and on their way back to fundamentals early from the current crisis, they need to rethink on policies that need to diversify their economic engagement inter-regionally and thereby boost world economic growth.

## **5. Synergy in energy**

Energy is the most dominant item in GCC-South Asia trade. The regions constitute the two strategic building blocks of the current global energy regime as major producers and consumers of energy. India has emerged as a major consumer of energy

and energy security is vital to the nation maintaining the current high rates of GDP growth. India's consumption of oil is expected to grow from the 2005 level of 2.5 million barrels per day to about 3.1 million barrels per day by 2010. It is estimated that by 2015 Pakistan's demand for oil will increase to 31 million TOE (tonne of oil equivalent) and for gas to 57 million TOE, even if electricity generated from hydro power and coal is virtually doubled. Domestic production meets only 18 per cent of Pakistan's oil consumption and 33 percent of India's. For considerable periods of time the strain on the Pakistani economy was ameliorated by "concessional" imports from the GCC. Even now Saudi Arabia is helping the Pakistani government in coping with the adverse impact of a phenomenal increase in oil prices. Also, both India and Pakistan have ambitious plans for augmenting domestic power generation through a mix of development strategies, but they also pursue strong diplomatic initiatives to import energy from outside sources. With India's petroleum consumption pattern switching to more environment friendly natural gas, there is huge demand for natural gas in recent years. There are number of LNG projects currently in place in India to meet increasing demand from transport sector, industrial sector and demand for power generation. In 2004, India for the first time imported LNG from Qatar for its Dahej plant in the state of Gujarat. Notwithstanding a moratorium on new LNG projects in Qatar, it has pledged to increase supplies to India during Prime Minister Manmohan Singh's visit in 2008.

One important aspect of energy interdependence between the two regions is the fact that while higher economic growth has resulted in increasing imports of crude oil by South Asia from the GCC region, due to the robust refining sector in South Asia particularly in India, exports of petroleum products to the GCC market, and UAE in particular, is on the rise in the last three years (See Table 2). India boasts of the world's largest and most sophisticated grassroot refinery at Jamnagar in Gujarat, operated by private energy giant Reliance Ltd. Thus, given the future trends of increasing energy trade between the two regions, there is outstanding potential for cooperation in the energy sector in order to address the vulnerabilities of energy security. For GCC, South Asia, as a secure stable export destination, bears importance given that its' traditional industrialized markets, especially the US and Europe, have not only diversified their import sources, but have also become highly energy efficient in terms of declining share of petroleum in the energy mix. With such a backdrop, GCC and South Asia should look for cooperation across the oil value chain from the wellhead to distribution. Given the favourable refining fundamentals in India, GCC exporters should look for setting up refineries in India in order to service the large South Asian market. Simultaneously, South Asian countries should look for viable investment opportunities in the GCC upstream sector. Moreover, there are major areas of common interest in the future of global energy supply and demand, the structure of international oil and gas markets, price developments, technology and legislation. There are also opportunities for cooperation and cross investment between national oil companies, which is one example of changing international oil and gas diplomacy.

**Table 2** GCC-South Asia energy trade, 2006-2008

| GCC's Exports to SAARC<br>Product label HS-4 code                            | Value in US\$ thousands |         |          |
|------------------------------------------------------------------------------|-------------------------|---------|----------|
|                                                                              | 2006                    | 2007    | 2008     |
| 2709-Crude petroleum oils                                                    | 19138505                | 1295118 | 32158328 |
| 2710-Petroleum oils, not crude                                               | 4910369                 | 1501079 | 8086699  |
| 2711-Petroleum gases                                                         | 1695563                 | 2888516 | 3188721  |
| 2713-Petroleum coke, petroleum bitumen &<br>other residues of petroleum oils | 28699                   | 1615    | 80984    |
| 2712-Petroleum jelly; mineral waxes &<br>similar products                    | 11741                   | 26684   | 12349    |
| GCC's Imports from SAARC<br>Product label HS-4 code                          | Value in US\$ thousands |         |          |
|                                                                              | 2006                    | 2007    | 2008     |
| 2710-Petroleum oils, not crude                                               | 16337                   | 54708   | 1620673  |
| 2713-Petroleum coke, petroleum bitumen &<br>other residues of petroleum oils | 34284                   | 35150   | 104901   |
| 2707-Oils & other products of the distillation<br>of high temp coal tar etc  | 4447                    | 4052    | 44329    |
| 2712-Petroleum jelly; mineral waxes &<br>similar products                    | 2186                    | 3604    | 7293     |
| 2709-Crude petroleum oils                                                    | 24                      | 1       | 446      |
| 2711-Petroleum gases                                                         | 73                      | 95      | 0        |

Source: TradeMap database, 2009.

## 6. Manpower bonanza

The discovery of oil and manpower shortages in the Gulf precipitated phenomenal labor migration to the region. Given the population pressure and bleak economic prospects at home, South Asian laborers flocked to the Gulf in search of employment and higher wages. The predominance of employees from the Indian sub-continent in skilled and unskilled occupations from the 1930s and their prominent role as unskilled workers, filled the vacuum in supply left by shortages of local Gulf labour. As the oil-led development process gathered momentum to the modern era, the flow of South Asian laborers increased.

Currently, around 6.5 million South Asians live in the GCC, making them the single largest expatriate community (17% of the total resident population). The South Asian expatriate community could be categorized into four broad groups, viz., (a) unskilled workers, employed in construction companies, municipalities, agricultural farms and as domestic workers; (b) skilled and semi-skilled workers; (c) professionals, such as doctors, engineers, accountants, employed in government and private sectors; and (d) businessmen.

There are large numbers of South Asian expatriate community institutions active in the GCC. In UAE almost all major Indian academic institutions, particularly in management and technology, are present, and similarly educational institutions from Pakistan are also present. Other professional bodies, such as the Indian Chartered Accounts Association are also active in the GCC. UAE (Dubai) is the only Islamic country in the World to have a Hindu Temple to accommodate the religious activi-

ties of the large Hindu expatriates from South Asia.

However, one of the major economic consequences of the large expatriate population in the GCC is the fact that there are fiscal and income redistribution effects in the host country to contend with. This is primarily the cause of anxieties among Gulf nationals, as foreigners remit huge sums of money to their home country as their status is purely temporary in the host countries, and a sense of uncertainty leads to high propensity to remit. Further, in the absence of suitable policies, especially relating to managing the migration process, this huge amount of capital flight is detrimental to the future growth of the respective economies. Nevertheless, with liberalizing and accommodative policies such as in the real estate sector in the UAE, South Asian expatriates have turned into entrepreneurs directly investing in big projects.

## **7. Food security: South Asia, the Gulf's rice bowl**

Food security is another important aspect of Gulf-South Asia interdependence. Insufficient cultivatable lands, arid climate and scarce water, among other constraints, handicap agriculture in the Gulf. The result is overwhelming dependence on food imports. In recent years, food security has become a crucial challenge for the Gulf. The so-called "food gap" in the GCC (the difference between what it produces and what it consumes) in recent years has gone up substantially due to growing populations (currently 38.8 million and projected to be 65 million by 2020). The GCC's food imports have increased from \$6 billion in 1990 to \$9 billion in 2000 and to \$17 billion in 2006.

Moreover, food constitutes a major source of imported inflation, as import dependency will reach 60 percent in the arid GCC countries by 2010. In Saudi Arabia, for example, about 15 percent of all imports are food items. The amount spent on food in the GCC is roughly 10 percent to 20 percent of disposable household income. With double-digit inflation and soaring international prices, as well as trade restrictions in major exporting nations in Asia, food insecurity concerns have heightened. Therefore, GCC governments are trying to secure physical access to food through farmland purchases, investments in agri-businesses and locking in long-term supply agreements with exporters.

Because of South Asia's rich agricultural resources, it is a traditional source for GCC food imports. Countries like India, Pakistan, Bangladesh, and Sri Lanka are the main suppliers of rice, wheat, sugar, and live animals. When India and Pakistan imposed rice export restrictions in 2007, worries mounted in the GCC and the region is now in the process of negotiating bilateral agreements to secure supplies from South Asia. Nevertheless, the Gulf's dependence on South Asia for food is likely to increase in coming years. This calls for a more action-oriented approach, in the form regional cooperation in the food sector for a long term mutual beneficial relations.

## **8. Conclusions**

An increasingly complex pattern of economic interdependence is reshaping economic relations between the Arabian Gulf region and South Asia, making each vulnerable

to, and sensitive towards, the other and providing the foundation for potential cooperation. Although energy is the cornerstone, it is multidimensional, including trade, investment, labor migration, remittances, and food security, all of which link the two regions.

With the current global economic downturn, GCC and South Asia are faced with a new global economic order in which both the regions are set to play a larger role in future. While there are cataclysmic effects affecting both, there is tremendous potential for both regions to continue the impressive growth momentum in the future, due to their structural comparative advantages and growing complementarities. Therefore, both the regions should institutionalize the relationship for a sustainable future. While it is simply unthinkable that an interregional framework between the Gulf and South Asia might take shape (due to divisions and conflicts in the South Asia region), yet, bilateral frameworks may nevertheless prove to be a formidable tool for expanding the relationship. In this regard, policy-makers should re-energize FTA negotiations in order to leverage the impetus provided by the current economic crisis for a sustainable economic engagement. Given the economic buoyancy in both regions, FTA would provide a level playing field for addressing the short-term economic vulnerabilities due to the current crisis and would foster broad based sustainable economic engagement in the long run.

Thus, GCC-South Asia economic relations herald a new era of intensive cooperation. While regionally, GCC and South Asia have become important economic power houses, globally they are set to play a larger role in order to safeguard their economic interests by synergizing complementarities. The economic resilience of both the regions to overcome the current economic crisis signifies the economic potential of mutual beneficial relations. The next logical course for both regions is to strive for a consensus in order to lay the foundation for a robust economic engagement with win-win propositions, which in turn calls for policy synergies.

## **About the author**

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# The Consequences of Intra-Regional Instability and Conflict for Gulf Trade Flows

**Aruba Khalid**

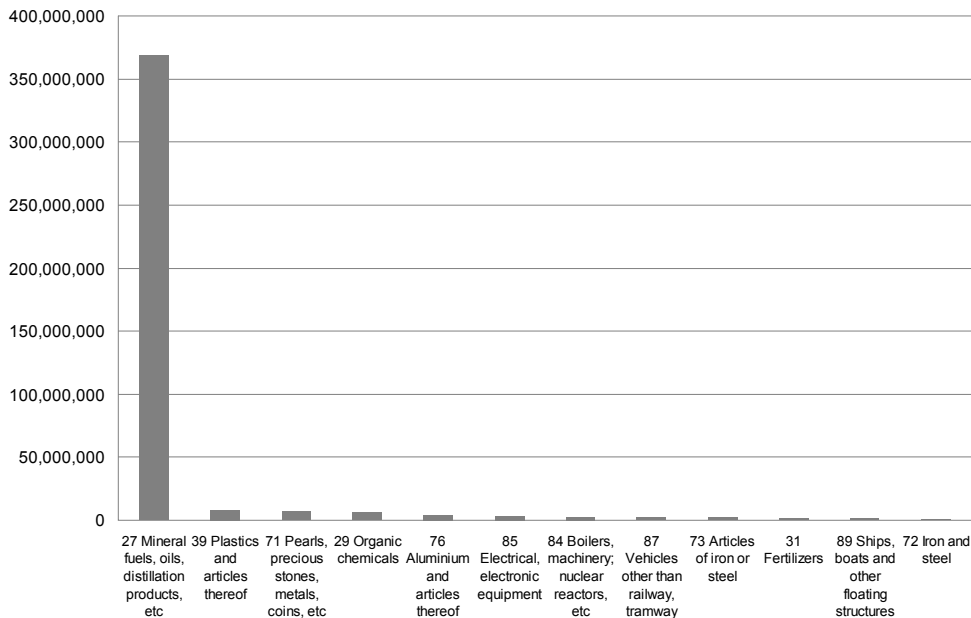
*MILE 10, World Trade Institute, University of Berne*

## 1. Introduction

Over the past 3 decades conflicts and international sanctions in the Middle East have undoubtedly had a significant impact on regional trade flows. Trade diversification and development into sectors which could be significantly competitive in the regional market may have been overlooked due to the prioritization of more dependable trade in long haul commodities. Currently there exists a strong potential for diversification and development in sectors which the Gulf countries may maintain regional, albeit not international, comparative advantage. Development of trade in such sectors and commodities could particularly enhance regional trade flows and consolidate the strength of regional economies through expansion and diversification. Although recent endeavors to diversify regional exports are evident, currently all of the 6 GCC countries largest exports are still mineral fuels, oils and distillation products which substantially exceed the values of other exports. The next largest exports for all of the GCC countries in 2006, plastic products for Qatar, Kuwait and Saudi Arabia, pearls and precious metals for the UAE, aluminum products for Bahrain and dairy and food items for Oman, accounted for much smaller export values. This creates significant regional dependency on mineral fuels as the primary export commodity and undermines the considerable potential for growth in other sectors.

The purpose of this paper is to indicate the potential for trade diversification and development in the Middle East through reviewing the impact of regional frictions, such as the GCC-Iran relations, the Iran Iraq War and the Gulf War, on trade flows and attempt to determine their enduring consequences on trade development. In the first section the significance of steady GCC Iran relations will be reviewed with particular emphasis on GCC Iran trade. In the next section regional conflicts, i.e. the Iran Iraq War and the Gulf War will be reviewed in accordance to their specific impact on regional trade flows. In the concluding section the overall effect of regional friction will be considered with consideration of possible future policy implications.

Figure 1 GCC exports, 2006 (US\$ thousands)



Source: International Trade Center

## 2. Review of regional conflicts and their impact on trade in the Middle East

### 2.1. GCC-Iran relations

Relations between Iran and the Gulf countries are particularly significant for regional political and economic stability. This is due to their geographical proximity and the large number of Iranians living and working in the GCC and travelling between Iran and the Gulf. Particularly, Iran UAE relations have been predominantly strong over the past decade. It has been estimated that commercial exchanges between the two nations count up to USD 16 billion and nearly 400,000 Iranians live in the UAE alone and operate 10,000 small businesses<sup>1,2</sup>. Relations between the two countries continue to thicken currently. In December 2009 Iran and the UAE concluded 5 documents for various agreements including a Memorandum of Understanding for specifications and standards of traded commodities and products. Iranian relations with other Gulf countries are also significant. It is however important to note that Iran GCC relations are not evenly spread out over the Gulf countries and are more coherent if viewed as

1 Iranian Investors returning from Dubai. 21/5/09 <http://www.zawya.com/story.cfm/sidZAWYA20090521050601/Iranian%20Investors%20Returning%20From%20Dubai>

2 Iran, UAE sign 5 documents for cooperation, Kuwait News Agency, 9 December 2009. <http://www.gulfintimedia.com/index.php?lang=en&m=&id=498474>

separate bilateral relations between Iran and each Gulf country<sup>3</sup>. Overall economic and trade relations between Iran and the UAE and Iran and Saudi Arabia have been particularly strong over the past decade despite political differences, such as the Abu Moussa Island Dispute between Iran and the UAE. However, over the past three decades issues including ideological differences, GCC-US relations and GCC's support for Iraq in the Gulf War have strained overall GCC Iran political relations. These relations are vital in determining regional trade ties and reciprocally, these ties are vulnerable to political tensions which stem not only from historical conflicts but ongoing tussles as well.

#### *2.1.1. GCC-Iran trade*

In the early 1980's a relatively significant share of Iran's trade was conducted with the GCC. In 1980 almost 6 percent of Iranian imports came from Gulf countries. During this time the largest share of Iran's imports from the GCC came from the UAE, which accounted for 74 percent of all GCC imports to Iran, followed by Kuwait and then Bahrain. Iranian exports to the GCC only accounted for 0.7 percent of Iran's total exports and Iran's largest share of GCC exports went to Saudi Arabia, the UAE and Kuwait followed by Qatar, Bahrain and Oman.

At the onset of the Iran Iraq War, Iran's exports to the GCC fell sharply, hitting a low point of USD 52 million in 1982. However Iranian imports from the Gulf through the same period remained much higher at USD 252 million in 1982 creating a large trade deficit for Iran with the GCC. By 1983 Iran's exports to the UAE increased substantially by almost 20 percent and took the largest share of Iran's exports to the GCC. Iranian imports from the GCC were also dominated by the UAE, followed by Kuwait, in the later part of the 1980's.

Throughout the 1980's GCC trade with Iran was relatively volatile, largely due to the damages inflicted to Iran's import and export capability by the ongoing Iran Iraq War. However, by the 1990's, after the end of the Iran Iraq War, Iranian exports to the GCC overall began to increase substantially and the UAE continued to receive the largest share.

Overall Iranian exports to the GCC hit a high point of USD 1,584 million in 1999 but fell sharply, declining 72 percent, in 2000. Iran's exports to the GCC began to recover in 2001 and the UAE received the largest share followed by Saudi Arabia, then Oman, Qatar and Kuwait. These shares remained almost the same to 2008 with overall values increasing.

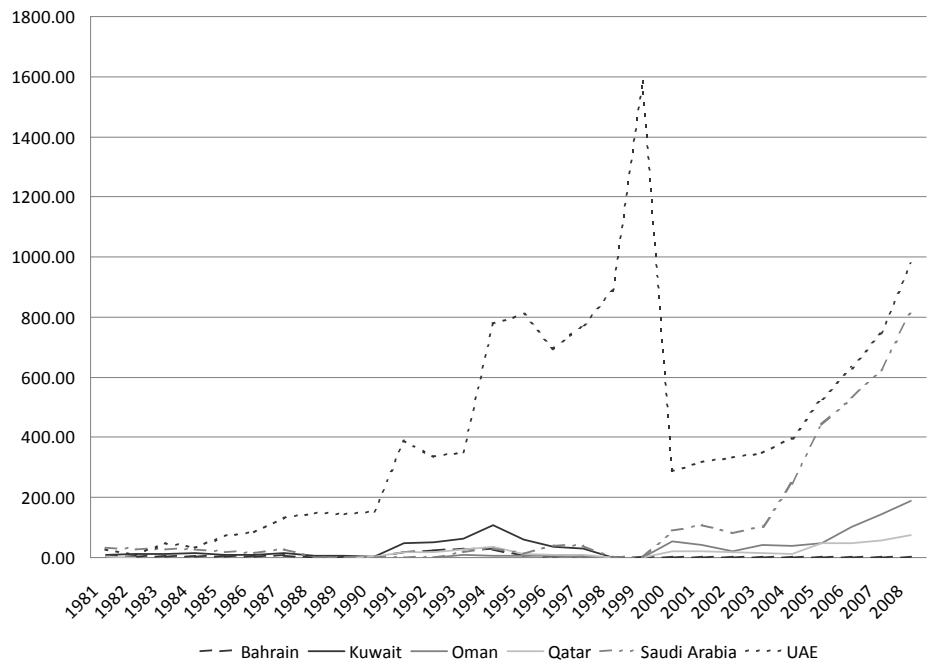
Iran imports through the 1990's were less volatile. During the 1990's Iran's largest share of GCC imports were predictably from the UAE which peaked in 1992 to USD 1,588 million but began to decline and hit a low of USD 441 million in 1995. Since then however Iran's imports from the UAE have increased steadily and reached their highest point in 2008 at USD 13,199 million. After the UAE, Iran's largest GCC imports come from Saudi Arabia followed by Oman, Kuwait, Bahrain and last, Qatar.

Although these trade patterns indicate the existence of significant trade integration between Iran and the GCC, periods of trade volatility may be explained in further detail through consideration of the fluctuations in regional political stability.

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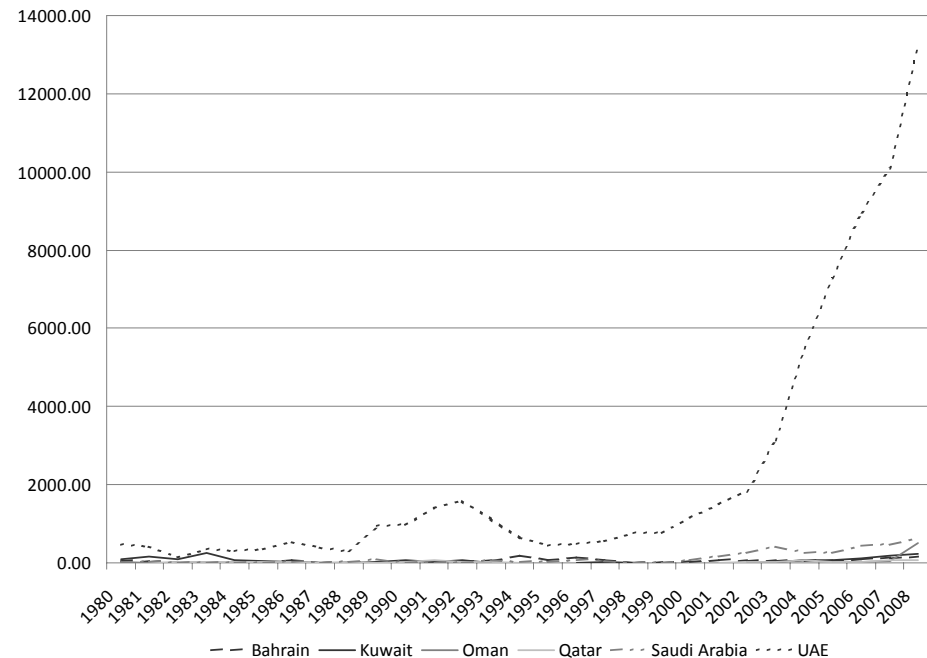
3 Anthony, J. Iran in 'GCC Dynamics'. *Middle East Policy*, Vol. 2, 1993, pp. 107-120  
<http://www.ncusar.org/publications/Publications/1993-11-Iran-in-GCC-Dynamics.pdf>

Figure 2 Iran's exports to the GCC (US\$ millions)



Source: Direction of Trade Statistics, IMF

Figure 3 Iran's imports from the GCC (US\$ millions)



Source: Direction of Trade Statistics, IMF

## **2.2. Iran Sanctions Act**

Iran has also suffered continuing international sanctions from the United States under the Iran Sanctions Act, originally introduced during the Clinton Administration. These sanctions, originally called the Iran-Libya Sanctions Act, primarily targeted Iran's energy sector by restricting trade and foreign investment in Iran<sup>4</sup>. The European Union states considered the ISLA as extraterritorial application of US law and opposed the sanctions causing the US to compromise and waive the ISLA in May 1998 for an EU investment in the Iranian South Pars gas fields. Nevertheless, despite various attempts at repealing the sanctions in 2001 and 2006 they have currently been extended until December, 2011 with various modifications<sup>5</sup>.

Although Iran has endured international sanctions for over a decade, which have put a severe strain on its international trade flows, the state has also played a key role in regional conflicts which have affected its regional trade flows and political relations, particularly with the GCC. One of the pivotal points in GCC Iran relations was the Iran Iraq War in 1980.

## **2.3. Iran-Iraq War 1980**

The Iran-Iraq War undoubtedly played a significant role in determining trade patterns in the Middle East throughout the 1980's. Prior to the war, political relations between the gulf countries and Iran had already been strained after Iran's Islamic Revolution in 1979. At the outbreak of the Iran-Iraq War however, the Gulf states formed a collective defense alliance, the Gulf Cooperation Council but maintained a neutral position towards the war.

### *2.3.1. Impact of the Iran-Iraq War on Iranian trade*

Overall Iranian trade contracted in 1986 because of increased import restriction coupled with consistent decreasing export earnings. Iranian world imports began to decline from 1983 and reached their lowest point in 1988 at USD 8,171 million, a decline of almost 55 per cent. The import of capital and consumer goods had started to decline after the 1979 Revolution; however, between 1979 and 1982, after the outbreak of the war, capital goods imports fell from 30 percent of total imports to 15 percent. Exports suffered worse as they fell from their peak of USD 19,185 million in 1983 to their lowest point of USD 8,044 million in 1986, a decline of almost 60 per cent. The increase in prices and fixed salaries intensified the rate of inflation, which ranged between 10 and 50 percent and Iran faced a large trade deficit<sup>6</sup>.

Part of this deficit was formed by Iran's sky rocketing food imports. Food imports increased to more than USD 2 billion by 1983, despite the emphasis on agricultural self-sufficiency and by 1986 food imports consumed as much as 20 percent of total foreign exchange. Iran had become one of the largest per capita purchasers of wheat in the world, buying 3.4 million tons annually. The nation spent about USD 3 billion per year on food items such as wheat, rice, meat, vegetable oil, eggs, chicken, tea, and

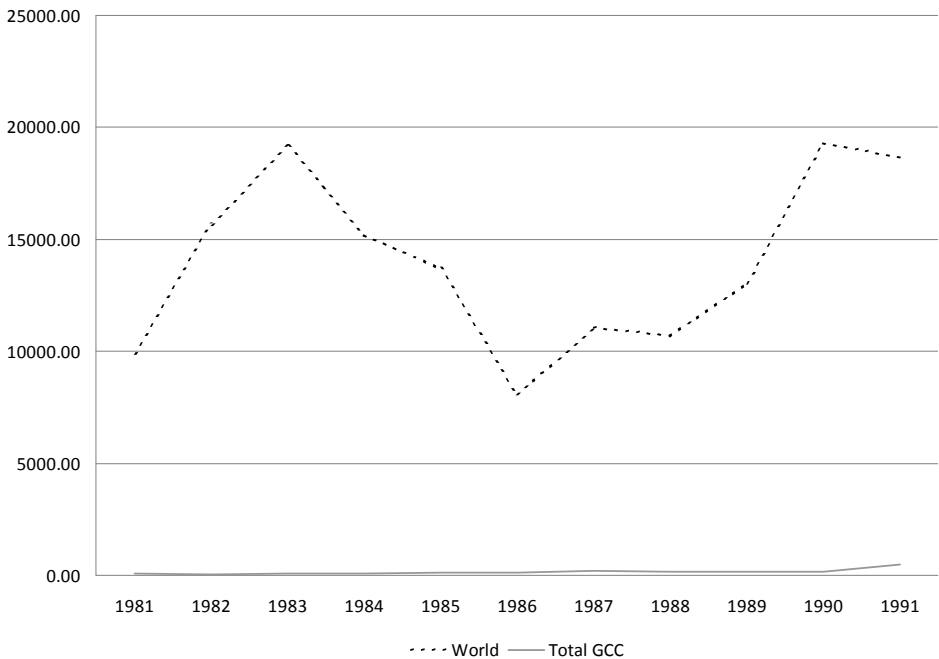
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4 Katzman, K. CRS Report for Congress, The Iran Sanctions Act (ISA) October 2007. <http://www.fas.org/sgp/crs/row/RS20871.pdf>

5 Ibid

6 International Monetary Fund, Direction of Trade Statistics

Figure 4 Iran's exports (US\$ millions)



Source: Direction of Trade Statistics, IMF

Figure 5 Iran's imports (US\$ millions)



Source: Direction of Trade Statistics, IMF

sugar. By December 1986, Iran's imports of meat and dairy products alone exceeded the value of the country's entire industrial output.

Soon, through a conscious effort by the Iranian government to contain the deficit crisis through restricting imports of luxury goods and import substitution imports declined to USD 2.6 billion at the end of 1986. Iran resorted to barter agreements with some countries in 1986 and 1987, trading oil for goods such as tea from Sri Lanka, rice from Thailand, wheat from Argentina'. Iran's adversary was in similar conditions.

### *2.3.2. Impact of the Iran-Iraq War on Iraqi trade*

Iraq suffered from similar deficit and debt problems resulting from the war as well as unstable development in the petroleum sector. Iranian attacks on the petroleum industry infrastructure reduced oil exports sharply and Iraq incurred a trade deficit of more than USD 10 billion in 1981. This unbalance worsened throughout 1982 as the value of Iraqi imports reached its peak at USD 23.5 billion, while exports reached a lowest point of USD 11.6 billion, leading to a record deficit. In 1983, however, imports also began to decline and fell almost 50 percent. Despite the partial recovery of Iraqi oil exports in 1986, exports were valued at only about USD 7.5 billion because of the sharp drop in world oil prices.

Iraq's endeavor to solve its debt and deficit problems by rebuilding and eventually increasing its oil export capacity did not materialize, as increases in volume were not sufficient to offset the depressed prices. Demand remained low and Iraq's expanded oil exports served only to create a surplus in the market and drove the price of oil further down. The reduced price of oil and the low prices of Iraqi exports, particularly raw materials, alongside higher prices for imported goods, pulled Iraq into the trap of declining terms of trade.

Although Iraq was cutting the volume of its imports and was increasing the volume of its exports, the relative values of imports and exports had essentially shifted. More than 95 per cent of Iraq's exports were raw materials, primarily petroleum, which had low prices. Food stuffs accounted for most additional exports whereas nearly half of Iraq's imports were high priced capital goods and consumer durables. The difference in the value of food stuffs and raw materials exports and expensive capital goods imports fuelled the trade deficit.

Eventually Iraqi imports began to decline. In 1983 they fell to USD 9, 928 million, almost half their value in 1981. Unlike Iran, however, this decline did not result from the government's conscious effort to balance its trade or from import substitution. Declining Iraqi imports throughout the 1980's can be attributed to an increasing unwillingness of the nations trading partners to extend credit.

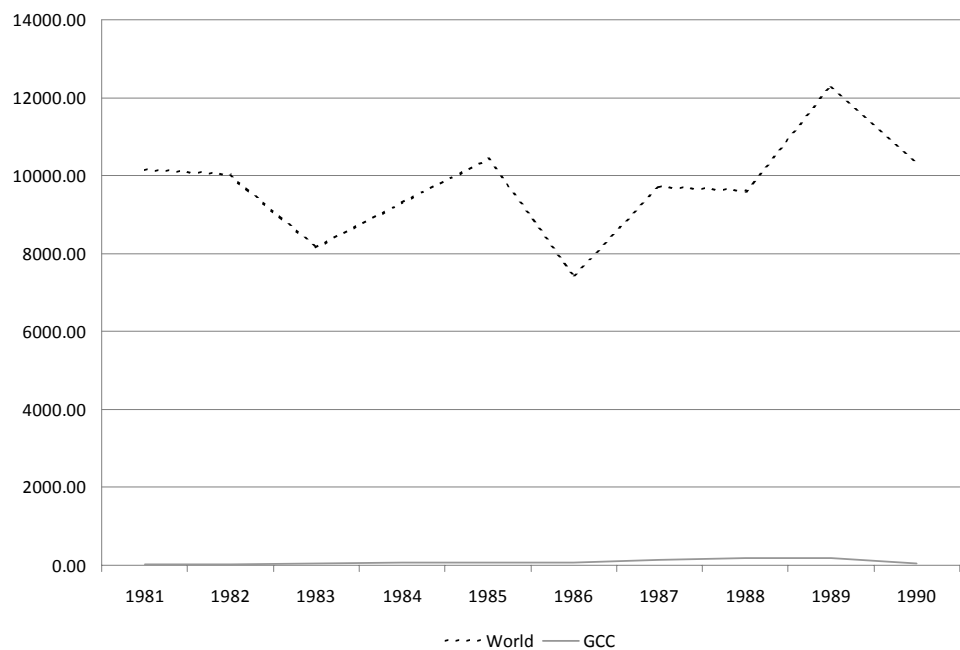
Iraq traded largely with Western European and at first both governments and private companies in Western Europe continued to supply Iraq in an effort to sustain the country until it could repay them. This debt helped secure buyers for Iraqi petroleum in a tight international market through barter agreements in which oil was exchanged for a reduction in debt. In 1987 however, as some West European companies prepared to cut their losses and to withdraw from the Iraqi market.

Eventually in 1987 Iraq had to ration imports for which cash payment was due,

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7 Country Studies Series, Library of Congress, Federal Research Division, updated 7th May 2009  
<http://memory.loc.gov/frd/cs/bhtoc.html>

Figure 6 Iraq's exports (US\$ millions)



Source: Direction of Trade Statistics, IMF

Figure 7 Iraq's imports (US\$ millions)



Source: Direction of Trade Statistics, IMF

whereas nonessential imports were purchased if the exporter offered credit. Any imports that contributed to the war effort were prioritized. As Iraq attempted to avoid the extremely high costs it would face if facilities were shut down, neglected and then reopened in the future, it highly prioritized importing spare parts and management services to maintain large industrial projects. Consumer goods however were considered expendable and given the least priority.

The government implemented new import policies as an attempt to replace imported manufactured products with domestic manufactured products gradually and then to increase export sales. In the mid-1980s, however, the government recognized that increased domestic production required the import of intermediate goods and imports of necessary goods was permitted. The private sector, which had long been accorded a quota of total imports, was also deregulated to a limited extent. In 1987 the rules concerning private sector imports were liberalized further when private sector manufacturers were granted special licenses that permitted them to import raw materials, spare parts, packaging, machinery, and equipment necessary for plant modernization and expansion. While the government permitted more imports by the private sector, it nevertheless continued to promote exports at the same time.

### *2.3.3. Regional trade during the Iran-Iraq War*

#### *(a) Iran GCC*

In 1980 Iran's imports from the GCC remained relatively steady reaching a high of USD 673 million in 1986 and experiencing a temporary decline in 1982 and 1988. Iran's GCC imports came largely from the UAE which remained relatively steady throughout the decade apart from a slight decline in 1982. Iran's next largest share of GCC imports came from Kuwait which was taken over by Saudi Arabia in the later 1980's whereas Iran's imports from Oman, Qatar and Bahrain remained marginal throughout the 1980's. Iran's exports to the GCC during the 1980's were very low creating a deficit for Iran with respect to the Gulf countries. The largest share of Iran's exports to the GCC went to Saudi Arabia which was overtaken by the UAE in the later 1980's.

#### *(b) Iraq GCC*

In 1980 Iraq's imports from the GCC were relatively high at USD 1,244 million which was almost 6 percent of Iraq's overall imports. However, as the Iran Iraq War carried on Iraq's GCC imports fell dramatically from 1983 and hit a low of USD 376 million in 1987. Throughout the 1980's Iraq's largest Arab imports came from Kuwait which consistently accounted for roughly 50 percent of Iraq's overall GCC imports. Iraq's next largest imports from the GCC came from the UAE throughout the early 1980s followed by Saudi Arabia. However Iraq's imports from Saudi Arabia and Oman overtook Iraq's imports from the UAE by 1989. Iraq's imports from Bahrain remained marginal throughout the 1980's and Qatar did not account for any of Iraq's GCC.

Throughout the entire 1980's Iraq's exports to the GCC remained substantially lower than its imports creating a large trade deficit for the nation with respect to the Gulf. Nevertheless, Iraq's exports to the GCC did increase steadily throughout the 1980's, approximately, 93 percent by 1989, with a minor dip in 1986. Mirroring Iraq's GCC import patterns, Kuwait had the largest GCC share of Iraq's exports followed alternatively by the UAE and Saudi Arabia. However, Iraq's exports to Oman along

with Qatar and Bahrain remained entirely marginal through the same period. These patterns do indicate the slight volatility of Iraq GCC trade during the Iran Iraq War, particularly Iraq's imports in 1983, however they do not suggest any dramatic instability. The substantial decline in Iraq's GCC imports in 1983 follows the pattern of the decrease in Iraq's overall imports in that year.

## **2.4. The Gulf War 1990**

The onset of the Gulf War can be linked back to the economic conditions of Iraq after the 1980 Iran Iraq War. Due to policies encouraging heavy investment in arms and training throughout the Iran Iraq War the Iraqi military held a dominant position in the region in the late 1980's and to maintain this military advantage Iraq required substantial funds. Although Iraq did have significant oil reserves these were not enough to fund its military needs forcing Iraq to borrow increasingly from regional oil-producing alliances pulling the nation into debt.

Coupled with continued investments, this debt brought on an exacerbating 40 per cent inflation rate. The combination of debt and high military expenses, further strained by inflation, created friction between Iraq and its creditors. Friction between Iraq and one of its creditors, Kuwait, particularly intensified as Kuwait refused to cancel or renegotiate Iraq's debt, estimated at USD 13 billion which had accumulated throughout the Iran Iraq War<sup>8</sup>.

### *2.4.1. The economic impact of the Gulf War*

On August 2<sup>nd</sup>, 1990, immediately after Iraq's invasion of Kuwait, the United Nations Security Council (UNSC) passed resolution 660 calling for the withdrawal of Iraqi troops. When the Iraqi government did not comply the UNSC followed resolution 660 with resolution 661 which authorized economic sanctions against Iraq and Kuwait declaring a trade blockade and freezing Iraqi and Kuwaiti assets<sup>9</sup>.

#### *(a) Impact of the Gulf War on Kuwait's trade*

Kuwaiti trade was entirely severed after the Iraqi invasion due to the complete trade ban imposed on Kuwait by the UNSC. Kuwait also suffered material damages to its ports and storage infrastructure which shifted Kuwait's import pattern throughout the later restoration period.

Moreover, in the period soon after the war, from 1991 to 1992 the Kuwait oil industry severely declined and suffered large declines in production and production capabilities due to the destruction of their oil wells.

The pattern of Kuwaiti imports also shifted as national imports now largely consisted of capital goods, spare parts and machinery, crowding out imports of consumer goods.

However, although Kuwait's trade surplus has declined in the mid 1980's to approximately USD 1.98 billion it grew in the second half of the decade to approxi-

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8 Country Studies Series, Library of Congress, Federal Research Division, updated 7th May 2009, <http://memory.loc.gov/frd/cs/bhtoc.html>

9 United Nations Security Council Resolutions - 1990, <http://www.un.org/Docs/scres/1990/scres90.htm>

mately USD 4.9 billion<sup>10</sup> indicating a positive trend which could continue once restoration was on track. Also, previously Kuwait had maintained a relatively liberal economic policy with minimal restriction on external trade which suggested future competitiveness and openness would eventually enhance trade, despite war damages.

In 1990 Kuwait had a large overall trade surplus with exports at USD 8520 million and imports at only USD 4049 million which suffered drastically by 1991 as Kuwait's exports fell sharply approximately 90 percent. However, by 1992 they had begun to increase again and by 1993 were back to their original level and continued to increase steadily. On the other hand Kuwait's imports did not fall so dramatically from 1990 to 1991 and recorded only a decline of 14 percent, however, similar to exports they continued to increase after 1992. Kuwait's imports from the GCC and Iraq were entirely eliminated from 1990 to 1992 however in 1993 Kuwait's began to import once more from Saudi Arabia and Oman. Kuwait's imports from Saudi Arabia accounted for almost 7 percent of Kuwait's overall imports in 1993. By 1994 Kuwait began once more to import from UAE, Bahrain, Qatar and Oman. Throughout the 1990's Kuwait's imports from the GCC increased steadily and doubled by 2005. Kuwait's largest share of GCC imports has consistently come from Saudi Arabia followed by the UAE then Bahrain Qatar and Oman.

Mirroring imports, Kuwait's world exports fell dramatically in 1991, declining almost 90 percent from the previous year but began to increase steadily again by 1992. In 1990 the largest share of Kuwait's regional exports went to Iraq followed by Saudi Arabia, the UAE, Bahrain, Oman and Qatar. However by 1991 Kuwait's exports to Iraq were predictably severed and their exports to the GCC fell substantially as well. Kuwait's exports to the GCC began to increase by 1992 as well with the UAE taking over the largest share followed by Saudi Arabia in 1997. Kuwait's exports have since then steadily increased with Saudi Arabia and the UAE alternatively taking the largest share. Throughout the 1990's Kuwait built a strong trade surplus which extends to the present.

#### *(b) Impact of the Gulf War on Regional Trade*

Throughout the period of the Gulf War the trade balances of the other GCC countries were also affected.

After the Iraqi invasion of Kuwait, following the sharp increase in oil prices from the uncertainty of future oil supplies, Saudi Arabia's trade balance increased to approximately USD 24 billion. Between 1984 and 1988 declines in oil revenues had forced the authorities to restrict government purchases of military equipment, however, after 1989 this category, in addition to the outflow of workers' remittances, aggravated the services' deficit.

Similarly, the UAE's oil production rose significantly after the outbreak of the War. An increase in the overall trade surplus in 1990 from USD 5.4 billion in 1989 to USD 9.5 billion in 1990. UAE imports rose by 16 per cent in 1990 while exports increased from 36 per cent. Considerable increases in imports occurred in the manufactured goods, machinery and transportation equipment which accounted for a total of 70

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10 *International Trade from a Kuwaiti and Arab Perspective*, Central Bank Kuwait, Delivered January 22, 199, UK, Annual Tacitus Lecture for the Guild of World Traders, <http://www.cbk.gov.kw/PDF/Book2Eng/part11.pdf>

per cent of UAE's imports<sup>11</sup>. Throughout this period the UAE also underwent a significant cash outflow. Due to the UAE's large military contribution in Kuwait at the onset of the Gulf War, monetary aid to countries affected by the Gulf crisis and huge capital transfers by companies and individuals throughout 1990 the Emirates faced their first negative balance of payments at a loss of 300 million<sup>12</sup>.

### **3 Conclusions and implications for the future**

In conclusion, it is clear that frictions in the Middle East have had a substantial impact on regional trade flows. Periods of erratic political conflicts such as the Iran Iraq War and the Gulf War may have caused the GCC countries to restructure regional political alliances in effect giving rise to regional trade volatility. Over time this lack of predictability in regional trade may have created greater reliance on long haul trade and eventually crowded out the development of regional trade integration. This indicates the potential for trade diversification into short haul commodities for regional trade to create a broadened regional market with deeper integration which will help diminish the Gulf's vulnerability to international crises and speculation.

Trade between the GCC and its neighbor, Iran, has fluctuated over the past 3 decades but remains relatively strong despite varying political friction. Regional conflicts have caused severe trade volatility, although certain conflicts have proved to be more consequential to trade diversion than others. The 1980 Iran Iraq War predictably cut off bilateral trade between the warring nations and damaged their trade capabilities. However Iran and Iraq's trade relations with their neighbors did not show significant instability or mirror the formation of any political alignments. On the other hand, the onset of the 1990 Gulf War cut off Iraq and Kuwait's bilateral and international trade flows as well as preexisting trade relations between the entire GCC and Iraq.

As the Gulf War mirrored political relations between the GCC and Iraq causing trade volatility, the trade sanctions imposed on Iraq through this period also demonstrated the regions vulnerability to external political reactions. Similarly, Iran has also suffered economic sanctions from the international community which may have inhibited further trade development in the region. This has indicated the significance of the effect of political differences on economic integration in the region, even if the differences are not regional.

Aside from causing temporary fluctuations in regional trade patterns and provoking international reactions, these regional political conditions may also have inhibited the growth of certain industries and overall trade diversification. Short haul trade within the GCC and Middle East may have been impeded due to erratic political conditions creating a greater preference for long haul trade. This reliance on the dependability of long haul trade may have crowded out serious diversification into other areas, such as manufacturing, which would prove more competitive within the regional market but not in the global market.

Currently, these findings indicate the potential for expansion into sectors in which Gulf countries may have regional competitive advantage. This could help establish a

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<sup>12</sup> Ibid.

broadened economy which need not be reliant on volatile global commodity prices particularly as the GCC economies to some extent rely on certain commodity exports which may be vulnerable to international speculation in crisis periods.

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## About the author

**Aruba Khalid** is currently completing her Masters in International Law and Economics at the World Trade Institute, University of Berne. She holds a Bachelor of Arts in International Economics from the American University of Sharjah and has worked at the Gulf Research Center, Dubai as a Research Assistant for GCC-Africa Relations. She has authored a paper on GCC-Sub-Saharan Africa Cooperation for the Gulf Monitor.



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## Section 2: Country-by-Country Reports



# BAHRAIN

**Table 8.1** Foreign state measures affecting Bahrain's commercial interests

| Summary statistic of foreign state measures affecting Bahrain's commercial interests                                                                                                                                                                     | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Bahrain's commercial interests                                                                                                                                                                                        | 25           | 24                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Bahrain's commercial interests [1]                                                                                                                            | 5            | 4                                                                     |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Bahrain's commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Bahrain's interests [2] | 9            | 9                                                                     |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Bahrain's interests [3]                                                                                                                      | 11           | 11                                                                    |
| Total number of implemented measures affecting Bahrain's commercial interests                                                                                                                                                                            | 19           | 18                                                                    |
| Total number of pending foreign measures likely to affect Bahrain's commercial interests.                                                                                                                                                                | 6            | 6                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Bahrain's foreign commercial interests                                                                                                                                 | 5            | 5                                                                     |
| Total number of trading partners that have imposed measures that harm Bahrain's commercial interests                                                                                                                                                     | 36           | 36                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Bahrain" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.2** Bahrain's state measures affecting other jurisdictions' commercial interests

| Summary statistic of Bahrain's state measures affecting other jurisdictions' commercial interests                                                                                                                                        | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of Bahrain's measures affecting other jurisdictions' commercial interests                                                                                                                                                   | 1            | 1                                                                     |
| Total number of Bahrain's measures found to benefit or involve no change in the treatment of other jurisdictions' commercial interests [1]                                                                                               | 1            | 1                                                                     |
| Total number of Bahrain's measures that (i) have been implemented and are likely to harm commercial interests or (ii) that have been announced but not implemented and which almost certainly discriminate against foreign interests [2] | none         | none                                                                  |
| Total number of Bahrain's measures that have been implemented and which almost certainly discriminate against foreign interests [3]                                                                                                      | none         | none                                                                  |
| Total number of 4-digit tariff lines affected by measures implemented by Bahrain that harm foreign commercial interests                                                                                                                  | none         | none                                                                  |
| Total number of 2-digit sectors affected by measures implemented by Bahrain that harm foreign commercial interests                                                                                                                       | none         |                                                                       |
| Total number of trading partners affected by measures implemented by Bahrain that harm foreign commercial interests                                                                                                                      | none         |                                                                       |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Bahrain" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.  
[2] These measures are classified "amber" in the Global Trade Alert database.  
[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.3** Foreign jurisdictions implementing measures affecting Bahrain's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| Germany                                              | 4                  |
| Indonesia                                            | 2                  |
| Algeria                                              | 1                  |
| Argentina                                            | 1                  |
| Austria                                              | 1                  |
| Belgium                                              | 1                  |
| Bulgaria                                             | 1                  |
| China                                                | 1                  |
| Cyprus                                               | 1                  |
| Czech Republic                                       | 1                  |
| Denmark                                              | 1                  |
| Estonia                                              | 1                  |
| European Communities                                 | 1                  |
| Finland                                              | 1                  |
| France                                               | 1                  |
| Greece                                               | 1                  |
| Hungary                                              | 1                  |
| Ireland                                              | 1                  |
| Italy                                                | 1                  |
| Latvia                                               | 1                  |
| Lithuania                                            | 1                  |
| Luxembourg                                           | 1                  |
| Malaysia                                             | 1                  |
| Malta                                                | 1                  |
| Netherlands                                          | 1                  |
| Poland                                               | 1                  |
| Portugal                                             | 1                  |
| Republic of Korea                                    | 1                  |
| Romania                                              | 1                  |
| Slovakia                                             | 1                  |
| Slovenia                                             | 1                  |
| Spain                                                | 1                  |
| Sweden                                               | 1                  |
| Thailand                                             | 1                  |
| United Kingdom of Great Britain and Northern Ireland | 1                  |
| United States of America                             | 1                  |

**Table 8.4** Implemented measures that harm Bahrain’s commercial interests, by typeinterests

| Type of measure.                   | Number of measures | As percentage of measures |
|------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure       | 7                  | 30.4%                     |
| Tariff measure                     | 4                  | 17.4%                     |
| Export taxes or restriction        | 3                  | 13.0%                     |
| Export subsidy                     | 2                  | 8.7%                      |
| Investment measure                 | 1                  | 4.3%                      |
| Local content requirement          | 1                  | 4.3%                      |
| Other service sector measure       | 1                  | 4.3%                      |
| Public procurement                 | 1                  | 4.3%                      |
| Sanitary and Phytosantiary Measure | 1                  | 4.3%                      |
| Technical Barrier to Trade         | 1                  | 4.3%                      |
| Trade finance                      | 1                  | 4.3%                      |
| Total                              | 23                 | 100.0%                    |

**Foreign jurisdictions' commercial interests affected by Bahrain's state measures.**

No foreign jurisdictions' commercial interests affected by this jurisdiction have been reported in the GTA database.

# Iran

**Table 8.5** Foreign state measures affecting Iran's commercial interests

| Summary statistic of foreign state measures affecting Iran's commercial interests                                                                                                                                                                  | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Iran's commercial interests                                                                                                                                                                                     | 61           | 54                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Iran's commercial interests [1]                                                                                                                         | 10           | 10                                                                    |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Iran's commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Iran's interests [2] | 17           | 11                                                                    |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Iran's interests [3]                                                                                                                   | 34           | 33                                                                    |
| Total number of implemented measures affecting Iran's commercial interests                                                                                                                                                                         | 46           | 45                                                                    |
| Total number of pending foreign measures likely to affect Iran's commercial interests.                                                                                                                                                             | 15           | 9                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Iran's foreign commercial interests                                                                                                                              | 13           | 7                                                                     |
| Total number of trading partners that have imposed measures that harm Iran's commercial interests                                                                                                                                                  | 14           | 14                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Iran" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.6** Iran's state measures affecting other jurisdictions' commercial interests

| Summary statistic of Iran's state measures affecting other jurisdictions' commercial interests                                                                                                                                              | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of Iran's measures affecting other jurisdictions' commercial interests                                                                                                                                                         | 5            | 5                                                                     |
| Total number of Iran's measures found to benefit or involve no change in the treatment of other jurisdictions' commercial interests [1]                                                                                                     | 2            | 2                                                                     |
| Total number of Iran's measures that<br>(i) have been implemented and are likely to harm commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against foreign interests [2] | none         | none                                                                  |
| Total number of Iran's measures that have been implemented and which almost certainly discriminate against foreign interests [3]                                                                                                            | 3            | 3                                                                     |
| Total number of 4-digit tariff lines affected by measures implemented by Iran that harm foreign commercial interests                                                                                                                        | 2            | 2                                                                     |
| Total number of 2-digit sectors affected by measures implemented by Iran that harm foreign commercial interests                                                                                                                             | 7            | none                                                                  |
| Total number of trading partners affected by measures implemented by Iran that harm foreign commercial interests                                                                                                                            | none         | none                                                                  |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Iran" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.7** Foreign jurisdictions implementing measures affecting Iran's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| Russian Federation                                   | 11                 |
| India                                                | 4                  |
| Germany                                              | 3                  |
| Ukraine                                              | 3                  |
| Argentina                                            | 2                  |
| Belarus                                              | 2                  |
| France                                               | 1                  |
| Indonesia                                            | 1                  |
| Iraq                                                 | 1                  |
| Japan                                                | 1                  |
| Kazakhstan                                           | 1                  |
| Republic of Korea                                    | 1                  |
| United Arab Emirates                                 | 1                  |
| United Kingdom of Great Britain and Northern Ireland | 1                  |

**Table 8.8** Implemented measures that harm Iran's commercial interests, by type

| Type of measure.                             | Number of measures | As percentage of measures |
|----------------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure                 | 15                 | 30.0%                     |
| Tariff measure                               | 9                  | 18.0%                     |
| Export taxes or restriction                  | 5                  | 10.0%                     |
| Export subsidy                               | 4                  | 8.0%                      |
| State trading enterprise                     | 3                  | 6.0%                      |
| Consumption subsidy                          | 2                  | 4.0%                      |
| State-controlled company                     | 2                  | 4.0%                      |
| Trade finance                                | 2                  | 4.0%                      |
| Import ban                                   | 1                  | 2.0%                      |
| Migration measure                            | 1                  | 2.0%                      |
| Non tariff barrier (not otherwise specified) | 1                  | 2.0%                      |
| Other service sector measure                 | 1                  | 2.0%                      |
| Public procurement                           | 1                  | 2.0%                      |
| Sanitary and Phytosanitary Measure           | 1                  | 2.0%                      |
| Technical Barrier to Trade                   | 1                  | 2.0%                      |
| Trade defence measure (AD, CVD, safeguard)   | 1                  | 2.0%                      |
| Total                                        | 50                 | 100.0%                    |

#### Foreign jurisdictions' commercial interests affected by Iran's state measures.

No foreign jurisdictions' commercial interests affected by this jurisdiction have been reported in the GTA database.

# Iraq

**Table 8.9** Foreign state measures affecting Iraq's commercial interests

| Summary statistic of foreign state measures affecting Iraq's commercial interests                                                                                                                                                            | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Iraq's commercial interests                                                                                                                                                                               | 10           | 9                                                                     |
| Total number of foreign measures found to benefit or involve no change in the treatment of Iraq's commercial interests [1]                                                                                                                   | 3            | 3                                                                     |
| Total number of foreign measures that (i) have been implemented and are likely to harm Iraq's commercial interests or (ii) that have been announced but not implemented and which almost certainly discriminate against Iraq's interests [2] | 3            | 3                                                                     |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Iraq's interests [3]                                                                                                             | 4            | 3                                                                     |
| Total number of implemented measures affecting Iraq's commercial interests                                                                                                                                                                   | 8            | 7                                                                     |
| Total number of pending foreign measures likely to affect Iraq's commercial interests.                                                                                                                                                       | 2            | 2                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Iraq's foreign commercial interests                                                                                                                        | 2            | 2                                                                     |
| Total number of trading partners that have imposed measures that harm Iraq's commercial interests                                                                                                                                            | 4            | 3                                                                     |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Iraq" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.  
[2] These measures are classified "amber" in the Global Trade Alert database.  
[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.10** Iraq's state measures affecting other jurisdictions' commercial interests

| Summary statistic of Iraq's state measures affecting other jurisdictions' commercial interests                                                                                                                                              | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of Iraq's measures affecting other jurisdictions' commercial interests                                                                                                                                                         | 2            | 2                                                                     |
| Total number of Iraq's measures found to benefit or involve no change in the treatment of other jurisdictions' commercial interests [1]                                                                                                     | 1            | 1                                                                     |
| Total number of Iraq's measures that<br>(i) have been implemented and are likely to harm commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against foreign interests [2] | none         | none                                                                  |
| Total number of Iraq's measures that have been implemented and which almost certainly discriminate against foreign interests [3]                                                                                                            | 1            | 1                                                                     |
| Total number of 4-digit tariff lines affected by measures implemented by Iraq that harm foreign commercial interests                                                                                                                        | 14           | 14                                                                    |
| Total number of 2-digit sectors affected by measures implemented by Iraq that harm foreign commercial interests                                                                                                                             | 2            | 2                                                                     |
| Total number of trading partners affected by measures implemented by Iraq that harm foreign commercial interests                                                                                                                            | 5            | 5                                                                     |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Iraq" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.11** Foreign jurisdictions implementing measures affecting Iraq's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| Algeria                                              | 1                  |
| India                                                | 1                  |
| Republic of Korea                                    | 1                  |
| United Kingdom of Great Britain and Northern Ireland | 1                  |

**Table 8.12** Foreign jurisdictions commercial interests affected by Iraq's state measures

| Foreign jurisdictions affected | Number of measures |
|--------------------------------|--------------------|
| Iran                           | 1                  |
| Jordan                         | 1                  |
| Syrian Arab Republic           | 1                  |
| Turkey                         | 1                  |

**Table 8.13** Implemented measures that harm Iraq's commercial interests, by type

| Type of measure                            | Number of measures | As percentage of measures |
|--------------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure               | 1                  | 20.0%                     |
| Investment measure                         | 1                  | 20.0%                     |
| Tariff measure                             | 1                  | 20.0%                     |
| Trade defence measure (AD, CVD, safeguard) | 1                  | 20.0%                     |
| Trade finance                              | 1                  | 20.0%                     |
| Total                                      | 5                  | 100.0%                    |

**Table 8.14** Iraq's implemented measures that harm foreign commercial interests, by type

| Type of measure. | Number of measures | As percentage of measures |
|------------------|--------------------|---------------------------|
| Import ban       | 1                  | 100.0%                    |
| Total            | 1                  | 100.0%                    |

# Jordan

**Table 8.15** Foreign state measures affecting Jordan's commercial interests

| Summary statistic of foreign state measures affecting Jordan's commercial interests                                                                                                                                                                    | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Jordan's commercial interests                                                                                                                                                                                       | 40           | 38                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Jordan's commercial interests [1]                                                                                                                           | 7            | 6                                                                     |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Jordan's commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Jordan's interests [2] | 10           | 9                                                                     |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Jordan's interests [3]                                                                                                                     | 23           | 23                                                                    |
| Total number of implemented measures affecting Jordan's commercial interests                                                                                                                                                                           | 33           | 32                                                                    |
| Total number of pending foreign measures likely to affect Jordan's commercial interests.                                                                                                                                                               | 7            | 6                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Jordan's foreign commercial interests                                                                                                                                | 6            | 5                                                                     |
| Total number of trading partners that have imposed measures that harm Jordan's commercial interests                                                                                                                                                    | 41           | 41                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Jordan" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.  
 [2] These measures are classified "amber" in the Global Trade Alert database.  
 [3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.16** Jordan's state measures affecting other jurisdictions' commercial interests

| Summary statistic of Jordan's state measures affecting other jurisdictions' commercial interests                                                                                                                                        | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of Jordan's measures affecting other jurisdictions' commercial interests                                                                                                                                                   | 3            | 1                                                                     |
| Total number of Jordan's measures found to benefit or involve no change in the treatment of other jurisdictions' commercial interests [1]                                                                                               | 1            | none                                                                  |
| Total number of Jordan's measures that (i) have been implemented and are likely to harm commercial interests or (ii) that have been announced but not implemented and which almost certainly discriminate against foreign interests [2] | none         | none                                                                  |
| Total number of Jordan's measures that have been implemented and which almost certainly discriminate against foreign interests [3]                                                                                                      | 2            | 1                                                                     |
| Total number of 4-digit tariff lines affected by measures implemented by Jordan that harm foreign commercial interests                                                                                                                  | 2            | none                                                                  |
| Total number of 2-digit sectors affected by measures implemented by Jordan that harm foreign commercial interests                                                                                                                       | 1            | none                                                                  |
| Total number of trading partners affected by measures implemented by Jordan that harm foreign commercial interests                                                                                                                      | 11           | 4                                                                     |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Jordan" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.  
[2] These measures are classified "amber" in the Global Trade Alert database.  
[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.17** Foreign jurisdictions implementing measures affecting Jordan's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| India                                                | 3                  |
| Indonesia                                            | 3                  |
| France                                               | 2                  |
| Germany                                              | 2                  |
| Netherlands                                          | 2                  |
| Spain                                                | 2                  |
| United Kingdom of Great Britain and Northern Ireland | 2                  |
| United States of America                             | 2                  |
| Algeria                                              | 1                  |
| Argentina                                            | 1                  |
| Austria                                              | 1                  |
| Belgium                                              | 1                  |
| Bulgaria                                             | 1                  |
| China                                                | 1                  |
| Cyprus                                               | 1                  |
| Czech Republic                                       | 1                  |
| Denmark                                              | 1                  |
| Egypt                                                | 1                  |
| Estonia                                              | 1                  |
| European Communities                                 | 1                  |
| Finland                                              | 1                  |
| Greece                                               | 1                  |
| Hungary                                              | 1                  |
| Iraq                                                 | 1                  |
| Ireland                                              | 1                  |
| Italy                                                | 1                  |
| Latvia                                               | 1                  |
| Lithuania                                            | 1                  |
| Luxembourg                                           | 1                  |
| Malaysia                                             | 1                  |
| Malta                                                | 1                  |
| Poland                                               | 1                  |
| Portugal                                             | 1                  |
| Romania                                              | 1                  |
| Russian Federation                                   | 1                  |
| Slovakia                                             | 1                  |
| Slovenia                                             | 1                  |
| Sweden                                               | 1                  |
| Switzerland                                          | 1                  |
| Thailand                                             | 1                  |
| United Arab Emirates                                 | 1                  |

**Table 8.18** Foreign jurisdictions' commercial interests affected by Jordan's state measures

| Foreign jurisdictions affected | Number of measures |
|--------------------------------|--------------------|
| China                          | 1                  |
| Egypt                          | 1                  |
| Indonesia                      | 1                  |
| Italy                          | 1                  |
| Philippines                    | 1                  |
| Saudi Arabia                   | 1                  |
| Spain                          | 1                  |
| Sri Lanka                      | 1                  |
| Syrian Arab Republic           | 1                  |
| United Arab Emirates           | 1                  |

**Table 8.19** Implemented measures that harm Jordan's commercial interests, by type

| Type of measure.             | Number of measures | As percentage of measures |
|------------------------------|--------------------|---------------------------|
| Bail out / state aid measure | 9                  | 32.1%                     |
| Export subsidy               | 5                  | 17.9%                     |
| Export taxes or restriction  | 3                  | 10.7%                     |
| Tariff measure               | 3                  | 10.7%                     |
| Trade finance                | 2                  | 7.1%                      |
| Import ban                   | 1                  | 3.6%                      |
| Investment measure           | 1                  | 3.6%                      |
| Local content requirement    | 1                  | 3.6%                      |
| Migration measure            | 1                  | 3.6%                      |
| Public procurement           | 1                  | 3.6%                      |
| State trading enterprise     | 1                  | 3.6%                      |
| Total                        | 28                 | 100.0%                    |

**Table 8.20** Jordan's implemented measures that harm foreign commercial interests, by type

| Type of measure                            | Number of measures | As percentage of measures |
|--------------------------------------------|--------------------|---------------------------|
| Migration measure                          | 1                  | 50.0%                     |
| Trade defence measure (AD, CVD, safeguard) | 1                  | 50.0%                     |
| Total                                      | 2                  | 100.0%                    |

# Kuwait

**Table 8.21** Foreign state measures affecting Kuwait's commercial interests

| Summary statistic of foreign state measures affecting Kuwait's commercial interests                                                                                                                                                                    | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Kuwait's commercial interests                                                                                                                                                                                       | 32           | 28                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Kuwait's commercial interests [1]                                                                                                                           | 5            | 4                                                                     |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Kuwait's commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Kuwait's interests [2] | 11           | 9                                                                     |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Kuwait's interests [3]                                                                                                                     | 16           | 15                                                                    |
| Total number of implemented measures affecting Kuwait's commercial interests                                                                                                                                                                           | 22           | 20                                                                    |
| Total number of pending foreign measures likely to affect Kuwait's commercial interests.                                                                                                                                                               | 10           | 8                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Kuwait's foreign commercial interests                                                                                                                                | 9            | 7                                                                     |
| Total number of trading partners that have imposed measures that harm Kuwait's commercial interests                                                                                                                                                    | 11           | 11                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Kuwait" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.22** Kuwait's state measures affecting other jurisdictions' commercial interests

| Summary statistic of Kuwait's state measures affecting other jurisdictions' commercial interests                                                                                                                                              | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of Kuwait's measures affecting other jurisdictions' commercial interests                                                                                                                                                         | 3            | 3                                                                     |
| Total number of Kuwait's measures found to benefit or involve no change in the treatment of other jurisdictions' commercial interests [1]                                                                                                     | 2            | 2                                                                     |
| Total number of Kuwait's measures that<br>(i) have been implemented and are likely to harm commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against foreign interests [2] | none         | none                                                                  |
| Total number of Kuwait's measures that have been implemented and which almost certainly discriminate against foreign interests [3]                                                                                                            | 1            | 1                                                                     |
| Total number of 4-digit tariff lines affected by measures implemented by Kuwait that harm foreign commercial interests                                                                                                                        | 8            | 8                                                                     |
| Total number of 2-digit sectors affected by measures implemented by Kuwait that harm foreign commercial interests                                                                                                                             | 6            | 6                                                                     |
| Total number of trading partners affected by measures implemented by Kuwait that harm foreign commercial interests                                                                                                                            | 1            | 1                                                                     |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Kuwait" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.23** Foreign jurisdictions implementing measures affecting Kuwait's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| India                                                | 4                  |
| Republic of Korea                                    | 2                  |
| Russian Federation                                   | 2                  |
| Argentina                                            | 1                  |
| China                                                | 1                  |
| Egypt                                                | 1                  |
| Indonesia                                            | 1                  |
| Saudi Arabia                                         | 1                  |
| Spain                                                | 1                  |
| United Kingdom of Great Britain and Northern Ireland | 1                  |

**Table 8.24** Foreign jurisdictions' commercial interests affected by Kuwait's state measures

| Foreign jurisdictions affected | Number of measures |
|--------------------------------|--------------------|
| Mongolia                       | 1                  |

**Table 8.25** Implemented measures that harm Kuwait's commercial interests, by type

| Type of measure                            | Number of measures | As percentage of measures |
|--------------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure               | 6                  | 35.3%                     |
| Tariff measure                             | 3                  | 17.6%                     |
| Export subsidy                             | 2                  | 11.8%                     |
| Trade finance                              | 2                  | 11.8%                     |
| Export taxes or restriction                | 1                  | 5.9%                      |
| Investment measure                         | 1                  | 5.9%                      |
| Sanitary and Phytosanitary Measure         | 1                  | 5.9%                      |
| Trade defence measure (AD, CVD, safeguard) | 1                  | 5.9%                      |
| Total                                      | 17                 | 100.0%                    |

**Table 8.26** Kuwait's implemented measures that harm foreign commercial interests, by type

| Type of measure                    | Number of measures | As percentage of measures |
|------------------------------------|--------------------|---------------------------|
| Sanitary and Phytosanitary Measure | 1                  | 100%                      |
| Total                              | 1                  | 100%                      |

# Lebanon

**Table 8.27** Foreign state measures affecting Lebanon's commercial interests

| Summary statistic of foreign state measures affecting Lebanon's commercial interests                                                                                                                                                                     | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Lebanon's commercial interests                                                                                                                                                                                        | 29           | 29                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Lebanon's commercial interests [1]                                                                                                                            | 3            | 3                                                                     |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Lebanon's commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Lebanon's interests [2] | 9            | 9                                                                     |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Lebanon's interests [3]                                                                                                                      | 17           | 17                                                                    |
| Total number of implemented measures affecting Lebanon's commercial interests                                                                                                                                                                            | 24           | 24                                                                    |
| Total number of pending foreign measures likely to affect Lebanon's commercial interests.                                                                                                                                                                | 5            | 5                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Lebanon's foreign commercial interests                                                                                                                                 | 5            | 5                                                                     |
| Total number of trading partners that have imposed measures that harm Lebanon's commercial interests                                                                                                                                                     | 39           | 39                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Lebanon" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.  
[2] These measures are classified "amber" in the Global Trade Alert database.  
[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.28** Lebanon's state measures affecting other jurisdictions' commercial interests

| Summary statistic of Lebanon's state measures affecting other jurisdictions' commercial interests                                                                                                                                        | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of Lebanon's measures affecting other jurisdictions' commercial interests                                                                                                                                                   | 1            | 1                                                                     |
| Total number of Lebanon's measures found to benefit or involve no change in the treatment of other jurisdictions' commercial interests [1]                                                                                               | none         | none                                                                  |
| Total number of Lebanon's measures that (i) have been implemented and are likely to harm commercial interests or (ii) that have been announced but not implemented and which almost certainly discriminate against foreign interests [2] | none         | none                                                                  |
| Total number of Lebanon's measures that have been implemented and which almost certainly discriminate against foreign interests [3]                                                                                                      | 1            | 1                                                                     |
| Total number of 4-digit tariff lines affected by measures implemented by Lebanon that harm foreign commercial interests                                                                                                                  | 1            | 1                                                                     |
| Total number of 2-digit sectors affected by measures implemented by Lebanon that harm foreign commercial interests                                                                                                                       | 1            | 1                                                                     |
| Total number of trading partners affected by measures implemented by Lebanon that harm foreign commercial interests                                                                                                                      | 1            | 1                                                                     |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Lebanon" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.29** Foreign jurisdictions implementing measures affecting Lebanon's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| France                                               | 3                  |
| Germany                                              | 3                  |
| Spain                                                | 3                  |
| United Kingdom of Great Britain and Northern Ireland | 3                  |
| Austria                                              | 2                  |
| Belgium                                              | 2                  |
| Bulgaria                                             | 2                  |
| Cyprus                                               | 2                  |
| Czech Republic                                       | 2                  |
| Denmark                                              | 2                  |
| Estonia                                              | 2                  |
| European Communities                                 | 2                  |
| Finland                                              | 2                  |
| Greece                                               | 2                  |
| Hungary                                              | 2                  |
| India                                                | 2                  |
| Indonesia                                            | 2                  |
| Ireland                                              | 2                  |
| Italy                                                | 2                  |
| Latvia                                               | 2                  |
| Lithuania                                            | 2                  |
| Luxembourg                                           | 2                  |
| Malta                                                | 2                  |
| Netherlands                                          | 2                  |
| Poland                                               | 2                  |
| Portugal                                             | 2                  |
| Romania                                              | 2                  |
| Slovakia                                             | 2                  |
| Slovenia                                             | 2                  |
| Sweden                                               | 2                  |
| Algeria                                              | 1                  |
| Argentina                                            | 1                  |
| China                                                | 1                  |
| Egypt                                                | 1                  |
| Lebanon                                              | 1                  |
| Malaysia                                             | 1                  |
| Russian Federation                                   | 1                  |
| Thailand                                             | 1                  |
| United States of America                             | 1                  |

**Table 8.30** Implemented measures that harm Lebanon's commercial interests, by type

| Type of measure                    | Number of measures | As percentage of measures |
|------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure       | 7                  | 33.3%                     |
| Export subsidy                     | 4                  | 19.0%                     |
| Export taxes or restriction        | 2                  | 9.5%                      |
| Public procurement                 | 2                  | 9.5%                      |
| Tariff measure                     | 2                  | 9.5%                      |
| Trade finance                      | 2                  | 9.5%                      |
| Investment measure                 | 1                  | 4.8%                      |
| Sanitary and Phytosanitary Measure | 1                  | 4.8%                      |
| Total                              | 21                 | 100.0%                    |

**Table 8.31** Lebanon's implemented measures that harm foreign commercial interests, by type

| Type of measure                    | Number of measures | As percentage of measures |
|------------------------------------|--------------------|---------------------------|
| Sanitary and Phytosanitary Measure | 1                  | 100%                      |
| Total                              | 1                  | 100.0%                    |

**Foreign jurisdictions' commercial interests affected by Lebanon's state measures.**

No foreign jurisdictions' commercial interests affected by this jurisdiction have been reported in the GTA database.

# Oman

**Table 8.32** Foreign state measures affecting Oman’s commercial interests

| Summary statistic of foreign state measures affecting Oman’s commercial interests                                                                                                                                                                  | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Oman’s commercial interests                                                                                                                                                                                     | 38           | 34                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Oman’s commercial interests [1]                                                                                                                         | 4            | 3                                                                     |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Oman’s commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Oman’s interests [2] | 14           | 12                                                                    |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Oman’s interests [3]                                                                                                                   | 20           | 19                                                                    |
| Total number of implemented measures affecting Oman’s commercial interests                                                                                                                                                                         | 30           | 27                                                                    |
| Total number of pending foreign measures likely to affect Oman’s commercial interests.                                                                                                                                                             | 8            | 7                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Oman’s foreign commercial interests                                                                                                                              | 8            | 7                                                                     |
| Total number of trading partners that have imposed measures that harm Oman’s commercial interests                                                                                                                                                  | 37           | 37                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Oman" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.  
[2] These measures are classified "amber" in the Global Trade Alert database.  
[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.33** Foreign jurisdictions implementing measures affecting Oman's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| India                                                | 4                  |
| France                                               | 3                  |
| Germany                                              | 3                  |
| Indonesia                                            | 3                  |
| Spain                                                | 3                  |
| United Kingdom of Great Britain and Northern Ireland | 3                  |
| Austria                                              | 2                  |
| Belgium                                              | 2                  |
| Bulgaria                                             | 2                  |
| Cyprus                                               | 2                  |
| Czech Republic                                       | 2                  |
| Denmark                                              | 2                  |
| Estonia                                              | 2                  |
| European Communities                                 | 2                  |
| Finland                                              | 2                  |
| Greece                                               | 2                  |
| Hungary                                              | 2                  |
| Ireland                                              | 2                  |
| Italy                                                | 2                  |
| Latvia                                               | 2                  |
| Lithuania                                            | 2                  |
| Luxembourg                                           | 2                  |
| Malta                                                | 2                  |
| Netherlands                                          | 2                  |
| Poland                                               | 2                  |
| Portugal                                             | 2                  |
| Republic of Korea                                    | 2                  |
| Romania                                              | 2                  |
| Slovakia                                             | 2                  |
| Slovenia                                             | 2                  |
| Sweden                                               | 2                  |
| United States of America                             | 2                  |
| Algeria                                              | 1                  |
| China                                                | 1                  |
| Japan                                                | 1                  |
| Malaysia                                             | 1                  |
| Thailand                                             | 1                  |

**Table 8.34** Implemented measures that harm Oman’s commercial interests, by type

| Type of measure                              | Number of measures | As percentage of measures |
|----------------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure                 | 8                  | 23.5%                     |
| Export subsidy                               | 6                  | 17.6%                     |
| Tariff measure                               | 5                  | 14.7%                     |
| Export taxes or restriction                  | 3                  | 8.8%                      |
| Non tariff barrier (not otherwise specified) | 2                  | 5.9%                      |
| Trade defence measure (AD, CVD, safeguard)   | 2                  | 5.9%                      |
| Trade finance                                | 2                  | 5.9%                      |
| Investment measure                           | 1                  | 2.9%                      |
| Local content requirement                    | 1                  | 2.9%                      |
| Other service sector measure                 | 1                  | 2.9%                      |
| Public procurement                           | 1                  | 2.9%                      |
| Sanitary and Phytosantiary Measure           | 1                  | 2.9%                      |
| Technical Barrier to Trade                   | 1                  | 2.9%                      |
| Total                                        | 34                 | 100.0%                    |

**Oman's state measures affecting other jurisdictions' commercial interests.**

No measures have been reported for this jurisdiction in the GTA database.

# Qatar

**Table 8.35** Foreign state measures affecting Qatar's commercial interests

| Summary statistic of foreign state measures affecting Qatar's commercial interests                                                                                                                                                                   | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Qatar's commercial interests                                                                                                                                                                                      | 28           | 24                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Qatar's commercial interests [1]                                                                                                                          | 5            | 4                                                                     |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Qatar's commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Qatar's interests [2] | 10           | 8                                                                     |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Qatar's interests [3]                                                                                                                    | 13           | 12                                                                    |
| Total number of implemented measures affecting Qatar's commercial interests                                                                                                                                                                          | 20           | 18                                                                    |
| Total number of pending foreign measures likely to affect Qatar's commercial interests.                                                                                                                                                              | 8            | 6                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Qatar's foreign commercial interests                                                                                                                               | 8            | 6                                                                     |
| Total number of trading partners that have imposed measures that harm Qatar's commercial interests                                                                                                                                                   | 10           | 10                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Qatar" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.36** Foreign jurisdictions implementing measures affecting Qatar's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| India                                                | 3                  |
| Republic of Korea                                    | 2                  |
| Algeria                                              | 1                  |
| Argentina                                            | 1                  |
| China                                                | 1                  |
| France                                               | 1                  |
| Germany                                              | 1                  |
| Indonesia                                            | 1                  |
| Russian Federation                                   | 1                  |
| United Kingdom of Great Britain and Northern Ireland | 1                  |

**Table 8.37** Implemented measures that harm Qatar's commercial interests, by type

| Type of measure                            | Number of measures | As percentage of measures |
|--------------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure               | 6                  | 40.0%                     |
| Tariff measure                             | 2                  | 13.3%                     |
| Trade finance                              | 2                  | 13.3%                     |
| Export subsidy                             | 1                  | 6.7%                      |
| Export taxes or restriction                | 1                  | 6.7%                      |
| Investment measure                         | 1                  | 6.7%                      |
| Public procurement                         | 1                  | 6.7%                      |
| Trade defence measure (AD, CVD, safeguard) | 1                  | 6.7%                      |
| Total                                      | 15                 | 100.0%                    |

**Qatar's state measures affecting other jurisdictions' commercial interests.**

No measures have been reported for this jurisdiction in the GTA database.

# Saudi Arabia

**Table 8.38** Foreign state measures affecting Saudi Arabia's commercial interests

| Summary statistic of foreign state measures affecting Saudi Arabia's commercial interests                                                                                                                                                                          | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Saudi Arabia's commercial interests                                                                                                                                                                                             | 59           | 50                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Saudi Arabia's commercial interests [1]                                                                                                                                 | 8            | 7                                                                     |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Saudi Arabia's commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Saudi Arabia's interests [2] | 22           | 16                                                                    |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Saudi Arabia's interests [3]                                                                                                                           | 29           | 27                                                                    |
| Total number of implemented measures affecting Saudi Arabia's commercial interests                                                                                                                                                                                 | 45           | 41                                                                    |
| Total number of pending foreign measures likely to affect Saudi Arabia's commercial interests.                                                                                                                                                                     | 14           | 9                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Saudi Arabia's foreign commercial interests                                                                                                                                      | 13           | 8                                                                     |
| Total number of trading partners that have imposed measures that harm Saudi Arabia's commercial interests                                                                                                                                                          | 43           | 42                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Saudi Arabia" in the "Affecting Trading Partner" and clicking the button "Get Stats".

- [1] These measures are classified "green" in the Global Trade Alert database.  
 [2] These measures are classified "amber" in the Global Trade Alert database.  
 [3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.39** Saudi Arabia's state measures affecting other jurisdictions' commercial interests

| Summary statistic of Saudi Arabia's state measures affecting other jurisdictions' commercial interests                                                                                                                                        | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of Saudi Arabia's measures affecting other jurisdictions' commercial interests                                                                                                                                                   | 8            | 8                                                                     |
| Total number of Saudi Arabia's measures found to benefit or involve no change in the treatment of other jurisdictions' commercial interests [1]                                                                                               | 1            | 1                                                                     |
| Total number of Saudi Arabia's measures that (i) have been implemented and are likely to harm commercial interests or (ii) that have been announced but not implemented and which almost certainly discriminate against foreign interests [2] | 2            | 2                                                                     |
| Total number of Saudi Arabia's measures that have been implemented and which almost certainly discriminate against foreign interests [3]                                                                                                      | 5            | 5                                                                     |
| Total number of 4-digit tariff lines affected by measures implemented by Saudi Arabia that harm foreign commercial interests                                                                                                                  | 14           | 14                                                                    |
| Total number of 2-digit sectors affected by measures implemented by Saudi Arabia that harm foreign commercial interests                                                                                                                       | 4            | 4                                                                     |
| Total number of trading partners affected by measures implemented by Saudi Arabia that harm foreign commercial interests                                                                                                                      | 3            | 3                                                                     |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Saudi Arabia" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.  
[2] These measures are classified "amber" in the Global Trade Alert database.  
[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.40** Foreign jurisdictions implementing measures affecting Saudi Arabia's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| India                                                | 5                  |
| Germany                                              | 4                  |
| Indonesia                                            | 3                  |
| Republic of Korea                                    | 3                  |
| Russian Federation                                   | 3                  |
| Spain                                                | 3                  |
| United Kingdom of Great Britain and Northern Ireland | 3                  |
| Argentina                                            | 2                  |
| Austria                                              | 2                  |
| Belgium                                              | 2                  |
| Bulgaria                                             | 2                  |
| Cyprus                                               | 2                  |
| Czech Republic                                       | 2                  |
| Denmark                                              | 2                  |
| Estonia                                              | 2                  |
| European Communities                                 | 2                  |
| Finland                                              | 2                  |
| France                                               | 2                  |
| Greece                                               | 2                  |
| Hungary                                              | 2                  |
| Ireland                                              | 2                  |
| Italy                                                | 2                  |
| Latvia                                               | 2                  |
| Lithuania                                            | 2                  |
| Luxembourg                                           | 2                  |
| Malta                                                | 2                  |
| Netherlands                                          | 2                  |
| Poland                                               | 2                  |
| Portugal                                             | 2                  |
| Romania                                              | 2                  |
| Slovakia                                             | 2                  |
| Slovenia                                             | 2                  |
| Sweden                                               | 2                  |
| Algeria                                              | 1                  |
| Belarus                                              | 1                  |
| China                                                | 1                  |
| Egypt                                                | 1                  |
| Jordan                                               | 1                  |
| Malaysia                                             | 1                  |
| Mexico                                               | 1                  |
| Sudan                                                | 1                  |
| Thailand                                             | 1                  |
| United States of America                             | 1                  |

**Table 8.41** Foreign jurisdictions' commercial interests affected by Saudi Arabia's state measures

| Foreign jurisdictions affected | Number of measures |
|--------------------------------|--------------------|
| Kuwait                         | 1                  |
| United Arab Emirates           | 1                  |
| Yemen                          | 1                  |

**Table 8.42** Implemented measures that harm Saudi Arabia’s commercial interests, by type

| Type of measure                              | Number of measures | As percentage of measures |
|----------------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure                 | 11                 | 25.0%                     |
| Export subsidy                               | 7                  | 15.9%                     |
| Tariff measure                               | 7                  | 15.9%                     |
| Export taxes or restriction                  | 4                  | 9.1%                      |
| Sanitary and Phytosantiary Measure           | 3                  | 6.8%                      |
| Trade defence measure (AD, CVD, safeguard)   | 3                  | 6.8%                      |
| Investment measure                           | 2                  | 4.5%                      |
| Non tariff barrier (not otherwise specified) | 2                  | 4.5%                      |
| Trade finance                                | 2                  | 4.5%                      |
| Other service sector measure                 | 1                  | 2.3%                      |
| Public procurement                           | 1                  | 2.3%                      |
| Technical Barrier to Trade                   | 1                  | 2.3%                      |
| Total                                        | 44                 | 100.0%                    |

**Table 8.43** Saudi Arabia's implemented measures that harm foreign commercial interests, by type

| Type of measure                    | Number of measures | As percentage of measures |
|------------------------------------|--------------------|---------------------------|
| Import ban                         | 2                  | 33.3%                     |
| Sanitary and Phytosantiary Measure | 2                  | 33.3%                     |
| Investment measure                 | 1                  | 16.7%                     |
| Migration measure                  | 1                  | 16.7%                     |
| Total                              | 6                  | 100.0%                    |

# United Arab Emirates

**Table 8.44** Foreign state measures affecting United Arab Emirates' commercial interests

| Summary statistic of foreign state measures affecting United Arab Emirates' commercial interests                                                                                                                                                                                 | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting United Arab Emirates' commercial interests                                                                                                                                                                                                    | 85           | 77                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of United Arab Emirates' commercial interests [1]                                                                                                                                        | 11           | 10                                                                    |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm United Arab Emirates' commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against United Arab Emirates' interests [2] | 29           | 23                                                                    |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against United Arab Emirates' interests [3]                                                                                                                                  | 45           | 44                                                                    |
| Total number of implemented measures affecting United Arab Emirates' commercial interests                                                                                                                                                                                        | 64           | 62                                                                    |
| Total number of pending foreign measures likely to affect United Arab Emirates' commercial interests.                                                                                                                                                                            | 21           | 15                                                                    |
| Total number of pending foreign measures that, if implemented, are likely to harm United Arab Emirates' foreign commercial interests                                                                                                                                             | 20           | 14                                                                    |
| Total number of trading partners that have imposed measures that harm United Arab Emirates' commercial interests                                                                                                                                                                 | 50           | 48                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "United Arab Emirates" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.45** United Arab Emirates' state measures affecting other jurisdictions' commercial interests

| Summary statistic of United Arab Emirates' state measures affecting other jurisdictions' commercial interests                                                                                                                                        | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of United Arab Emirates' measures affecting other jurisdictions' commercial interests                                                                                                                                                   | 3            | 3                                                                     |
| Total number of United Arab Emirates' measures found to benefit OR involve no change in the treatment of other jurisdictions' commercial interests [1]                                                                                               | none         | none                                                                  |
| Total number of United Arab Emirates' measures that (i) have been implemented and are likely to harm commercial interests or (ii) that have been announced but not implemented and which almost certainly discriminate against foreign interests [2] | 1            | 1                                                                     |
| Total number of United Arab Emirates' measures that have been implemented and which almost certainly discriminate against foreign interests [3]                                                                                                      | 2            | 2                                                                     |
| Total number of 4-digit tariff lines affected by measures implemented by United Arab Emirates that harm foreign commercial interests                                                                                                                 | none         | none                                                                  |
| Total number of 2-digit sectors affected by measures implemented by United Arab Emirates that harm foreign commercial interests                                                                                                                      | none         | none                                                                  |
| Total number of trading partners affected by measures implemented by United Arab Emirates that harm foreign commercial interests                                                                                                                     | 10           | 10                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change. Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "United Arab Emirates" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.  
[2] These measures are classified "amber" in the Global Trade Alert database.  
[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.46** Foreign jurisdictions implementing measures affecting United Arab Emirates' commercial commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| Indonesia                                            | 5                  |
| Russian Federation                                   | 5                  |
| France                                               | 4                  |
| India                                                | 4                  |
| Spain                                                | 4                  |
| Argentina                                            | 2                  |
| Germany                                              | 2                  |
| Nigeria                                              | 2                  |
| Ukraine                                              | 2                  |
| United Kingdom of Great Britain and Northern Ireland | 2                  |
| United States of America                             | 2                  |
| Algeria                                              | 1                  |
| Australia                                            | 1                  |
| Austria                                              | 1                  |
| Belarus                                              | 1                  |
| Belgium                                              | 1                  |
| Bulgaria                                             | 1                  |
| China                                                | 1                  |
| Cyprus                                               | 1                  |
| Czech Republic                                       | 1                  |
| Denmark                                              | 1                  |
| Ecuador                                              | 1                  |
| Egypt                                                | 1                  |
| Estonia                                              | 1                  |
| European Communities                                 | 1                  |
| Finland                                              | 1                  |
| Greece                                               | 1                  |
| Hungary                                              | 1                  |
| Ireland                                              | 1                  |
| Italy                                                | 1                  |
| Japan                                                | 1                  |
| Jordan                                               | 1                  |
| Latvia                                               | 1                  |
| Lithuania                                            | 1                  |
| Luxembourg                                           | 1                  |
| Malta                                                | 1                  |
| Netherlands                                          | 1                  |
| Poland                                               | 1                  |
| Portugal                                             | 1                  |
| Republic of Korea                                    | 1                  |
| Romania                                              | 1                  |
| Saudi Arabia                                         | 1                  |
| Slovakia                                             | 1                  |
| Slovenia                                             | 1                  |
| Sweden                                               | 1                  |
| Switzerland                                          | 1                  |
| Uganda                                               | 1                  |
| Viet Nam                                             | 1                  |
| Zambia                                               | 1                  |

**Table 8.47** Foreign jurisdictions' commercial interests affected by United Arab Emirates' state measures

| Foreign jurisdictions affected | Number of measures |
|--------------------------------|--------------------|
| Bangladesh                     | 1                  |
| Egypt                          | 1                  |
| India                          | 1                  |
| Iran                           | 1                  |
| Jordan                         | 1                  |
| Pakistan                       | 1                  |
| Philippines                    | 1                  |
| Sri Lanka                      | 1                  |
| Sudan                          | 1                  |
| Yemen                          | 1                  |

**Table 8.48** Implemented measures that harm United Arab Emirates' commercial interests, by type

| Type of measure                              | Number of measures | As percentage of measures |
|----------------------------------------------|--------------------|---------------------------|
| Bail out / state aid measure                 | 15                 | 23.8%                     |
| Tariff measure                               | 15                 | 23.8%                     |
| Export subsidy                               | 8                  | 12.7%                     |
| Non tariff barrier (not otherwise specified) | 5                  | 7.9%                      |
| Export taxes or restriction                  | 4                  | 6.3%                      |
| Public procurement                           | 4                  | 6.3%                      |
| Sanitary and Phytosanitary Measure           | 2                  | 3.2%                      |
| Trade finance                                | 2                  | 3.2%                      |
| Consumption subsidy                          | 1                  | 1.6%                      |
| Import ban                                   | 1                  | 1.6%                      |
| Intellectual property protection             | 1                  | 1.6%                      |
| Investment measure                           | 1                  | 1.6%                      |
| Local content requirement                    | 1                  | 1.6%                      |
| Other service sector measure                 | 1                  | 1.6%                      |
| Technical Barrier to Trade                   | 1                  | 1.6%                      |
| Trade defence measure (AD, CVD, safeguard)   | 1                  | 1.6%                      |
| Total                                        | 63                 | 100.0%                    |

**Table 8.49** United Arab Emirates' implemented measures that harm foreign commercial interests, by type

| Type of measure              | Number of measures | As percentage of measures |
|------------------------------|--------------------|---------------------------|
| Bail out / state aid measure | 1                  | 50.0%                     |
| Migration measure            | 1                  | 50.0%                     |
| Total                        | 2                  | 100.0%                    |

# Yemen

**Table 8.50** Foreign state measures affecting Yemen's commercial interests

| Summary statistic of foreign state measures affecting Yemen's commercial interests                                                                                                                                                                   | All measures | All measures except anti-dumping, anti-subsidy, and safeguard actions |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------|
| Total number of measures affecting Yemen's commercial interests                                                                                                                                                                                      | 20           | 20                                                                    |
| Total number of foreign measures found to benefit or involve no change in the treatment of Yemen's commercial interests [1]                                                                                                                          | 3            | 3                                                                     |
| Total number of foreign measures that<br>(i) have been implemented and are likely to harm Yemen's commercial interests or<br>(ii) that have been announced but not implemented and which almost certainly discriminate against Yemen's interests [2] | 3            | 3                                                                     |
| Total number of foreign measures that have been implemented and which almost certainly discriminate against Yemen's interests [3]                                                                                                                    | 14           | 14                                                                    |
| Total number of implemented measures affecting Yemen's commercial interests                                                                                                                                                                          | 18           | 18                                                                    |
| Total number of pending foreign measures likely to affect Yemen's commercial interests.                                                                                                                                                              | 2            | 2                                                                     |
| Total number of pending foreign measures that, if implemented, are likely to harm Yemen's foreign commercial interests                                                                                                                               | 2            | 2                                                                     |
| Total number of trading partners that have imposed measures that harm Yemen's commercial interests                                                                                                                                                   | 39           | 39                                                                    |

*Note:* As the Global Trade Alert database is updated frequently, the above data will change.

Updates on the numbers in this table can be found by going to <http://www.globaltradealert.org/site-statistics>, and selecting "Yemen" in the "Affecting Trading Partner" and clicking the button "Get Stats".

[1] These measures are classified "green" in the Global Trade Alert database.

[2] These measures are classified "amber" in the Global Trade Alert database.

[3] These measures are classified "red" in the Global Trade Alert database.

**Table 8.51** Foreign jurisdictions implementing measures affecting Yemen's commercial interests

| Foreign jurisdictions implementing measures          | Number of measures |
|------------------------------------------------------|--------------------|
| India                                                | 3                  |
| Germany                                              | 2                  |
| Indonesia                                            | 2                  |
| United Kingdom of Great Britain and Northern Ireland | 2                  |
| Algeria                                              | 1                  |
| Austria                                              | 1                  |
| Belarus                                              | 1                  |
| Belgium                                              | 1                  |
| Bulgaria                                             | 1                  |
| China                                                | 1                  |
| Cyprus                                               | 1                  |
| Czech Republic                                       | 1                  |
| Denmark                                              | 1                  |
| Estonia                                              | 1                  |
| European Communities                                 | 1                  |
| Finland                                              | 1                  |
| France                                               | 1                  |
| Greece                                               | 1                  |
| Hungary                                              | 1                  |
| Ireland                                              | 1                  |
| Italy                                                | 1                  |
| Latvia                                               | 1                  |
| Lithuania                                            | 1                  |
| Luxembourg                                           | 1                  |
| Malaysia                                             | 1                  |
| Malta                                                | 1                  |
| Netherlands                                          | 1                  |
| Poland                                               | 1                  |
| Portugal                                             | 1                  |
| Republic of Korea                                    | 1                  |
| Romania                                              | 1                  |
| Russian Federation                                   | 1                  |
| Saudi Arabia                                         | 1                  |
| Slovakia                                             | 1                  |
| Slovenia                                             | 1                  |
| Spain                                                | 1                  |
| Sweden                                               | 1                  |
| Thailand                                             | 1                  |
| United Arab Emirates                                 | 1                  |

**Table 8.52** Implemented measures that harm Yemen's commercial interests, by type

| Type of measure              | Number of measures | As percentage of measures |
|------------------------------|--------------------|---------------------------|
| Bail out / state aid measure | 4                  | 25.0%                     |
| Export subsidy               | 3                  | 18.8%                     |
| Export taxes or restriction  | 3                  | 18.8%                     |
| Trade finance                | 2                  | 12.5%                     |
| Import ban                   | 1                  | 6.3%                      |
| Investment measure           | 1                  | 6.3%                      |
| Migration measure            | 1                  | 6.3%                      |
| Tariff measure               | 1                  | 6.3%                      |
| Total                        | 16                 | 100.0%                    |

**Yemen's state measures affecting other jurisdictions' commercial interests.**

No measures have been reported for this jurisdiction in the GTA database.

After the tumult of the first half of 2009, many economies stabilised and some even began to recover in the last quarter of 2009. Using information compiled through to late January 2010, this fourth report of the Global Trade Alert examines whether macroeconomic stabilisation has altered governments' resort to protectionism. Has economic recovery advanced enough so that national policymakers now feel little or no pressure to restrict international commerce? Or is the recovery so nascent that governments continue to discriminate against foreign commercial interests, much as they did during the darker days of 2009? The answers to these questions will determine what contribution exports and the world trading system are likely to play in fostering growth during 2010.

The contents of this Report will be of interest to trade policymakers and other government officials and to commercial associations, non-governmental organisations, and analysts following developments in the world trading system.

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