

Exploring the U.S.-GCC Relationship:

A Discussion of Trade, Investment, and Commercial Opportunities

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EXECUTIVE SUMMARY

The U.S. Chamber of Commerce has recently undertaken a new initiative focusing on issues central to the U.S.-GCC commercial relationship. U.S.-GCC relationship historically has been based on energy (oil trade) and security concerns, but has developed into a broader economic relationship with many opportunities and a strong potential for expansion. This report aims to highlight the trade and investment environment within the context of the U.S.-GCC relationship, as well as suggest areas for growth and opportunities to move the relationship forward.

Background and Overview

GCC Background: The Gulf Cooperation Council (GCC) was established in May 1981 and includes: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. These six Gulf States decided to coordinate foreign policy, defense, security planning, and economic cooperation under the auspicious of the GCC. Economic cooperation and partnership has been a key element of the GCC. In 1983, the GCC established a free trade zone between the member states making intra-GCC trade duty free. On January 1, 2003, the GCC became a Customs Union, meaning that all six countries apply a common external tariff, at 5%. The GCC hopes to have full economic integration, including a common market and single currency, by 2010; although the likelihood of the GCC achieving these goals by the set date is slim.

Economic Overview: The economies of the GCC member countries have all experienced strong economic growth over the last few years, with real GDP growth rates between 4 and 11%. In 2006, the GDP of the GCC as a whole equaled \$712 billion, with Saudi Arabia accounting for one half of it. For comparison, in 2006, the United States' GDP was \$13.2 trillion with a real GDP growth rate of 2.9%. The U.S.'s GDP per capita of \$44,100 in 2006 is higher than that of all GCC member states, except Qatar. Strong GDP and GDP growth rates in the GCC region are based in large part on strong oil exports and revenue. While the GCC countries rely heavily on the oil industry, the countries have been working to diversify their economies.

Overview of the U.S.-GCC Relationship: In May of 2003, President Bush announced an initiative to help promote trade and investment by the Middle East with the United States and the world. Under this initiative, the U.S. negotiated a free trade agreement (FTA) with Bahrain and Oman. In addition to the two FTAs, the United States has engaged in other agreements with GCC countries, in effort to promote greater economic ties. The U.S. and the GCC nations have had a relatively strong relationship over the years built on security concerns within the Middle East region. The United States has become a major security and military ally for the GCC nations.

The U.S.-GCC Trade Relationship: U.S. goods exports to the GCC have grown substantially over the last five years, more than doubling between 2003 and 2007. GCC goods exports to the U.S. have also grown significantly, almost doubling from \$22 billion in 2003 to almost \$43 billion in 2007. From 2003 to 2007, the GCC maintained a sizable trade surplus with the United States; although in 2007, the United States maintained an individual trade surplus with the UAE, Qatar and Oman. GCC goods exports to the U.S. are dominated by oil and gas sales. Trade in industrial goods (led by aerospace products and parts, motor vehicles, and agricultural and construction machinery) represent the vast majority of U.S. exports to the GCC.

The U.S.–GCC Investment Relationship: Total stock FDI in the U.S. in 2006 was \$1.79 trillion. Over two-thirds of FDI in the U.S. comes from Canada, the United Kingdom and Japan, though FDI from the GCC has been expanding over recent years. Total stock FDI in GCC countries in 2006 was \$242 billion, with Saudi Arabia having the largest stock FDI at \$51.8 billion. Flow FDI into the GCC increased 44% from 2005 to 2006. The GCC in 2006 had almost \$15.5 billion in stock FDI from the U.S. The U.S. direct investment in the GCC accounts for 0.7% of the U.S.’s total world-wide direct investment in 2006.

Macroeconomic and Investment Climate

GCC Investment Climate: All members of the GCC have A or AA- ratings that are described as relatively high quality and subject to low credit risk. These countries still require large amounts of investment in order to support their economies. The investment environment varies across the spectrum from Bahrain, which is completely open to foreign businesses and even has given incentives for development, to Saudi Arabia which has only recently begun to open up access for investment in certain sectors. Major political and economic risks are not present in these countries; however, the amount of infrastructure and commercial support differs from country to country. This varies from the UAE, which has a vast amount of infrastructure in place promoting investment, to Kuwait, which has only recently begun to address this key area. One of these key risks is barriers to investment based on foreign ownership requirements, which limit investment opportunities. These are more acute in some countries, such as Saudi Arabia and Oman, which have developed the “isation” programs to counter this move, but other countries, such as Bahrain and the UAE have created free trade zones or passed regulations to promote foreign business development within their borders.

U.S. Investment Climate: The openness of the U.S. to investment, particularly from the GCC, was called into question in 2005, with the proposed DP World management of six major seaports. The American public was extremely skeptical of any ownership by a Middle East firm after the September 11th attacks. The experience with DP World brought with it renewed efforts to promote investment in the U.S. and new measures to deal with valid national security with regards to investment. The “Invest in America” initiative was launched in 2007 to attract foreign direct investment and to create a more attractive investor climate. To deal with national security concerns, the Foreign Investment and National Security Act (FINSIA) was enacted, expanding the role of the Committee on Foreign Investment in the United States.

Moving the U.S.-GCC Relationship Forward

Areas of Opportunity: The current trade and investment relationship between the U.S. and the GCC countries highlights the dynamic and prosperous background and the abound possibilities for moving the relationship forward. The current trend in the GCC countries is to work towards the diversification of their economies away from the oil and petroleum industry. As such, GCC member countries individually are engaging in active investment promotion, by promoting key growth sectors and reforming the legal and regulatory environments to allow for foreign ownership and investment. Diversification efforts have led to growth trends across the region in several sectors including: financial services, tourism, natural gas, and construction among others.

The Role of Sovereign Wealth Funds (SWFs): One way to channel investment on a large scale is through the use of Sovereign Wealth Funds (SWFs). A sovereign wealth fund is a state-owned fund composed of financial assets such as stocks, bonds, property, or other financial instruments. Kuwait, Qatar, Saudi Arabia, and the UAE (with China and Libya) have 7 of the 10 largest SWFs worldwide, and the U.S. is the largest destination for SWF investment, with 37% of total SWF investment flows. The major source of SWF capital is the petroleum industry, in which the GCC member countries are heavily involved. SWFs present a useful tool for the investment of massive oil wealth or “petrodollars,” but perhaps more importantly, they also provide a major source of liquidity for international markets.

Investment Promotion in the U.S. and GCC: There is growing consensus that countries are increasingly “turning to the business community as the engine of economic growth and prosperity.” The role that Chambers of Commerce and Investment Promotion Agencies can play is to facilitate growth through private sector advocacy and to promote trade and investment policies that facilitate and support local businesses, with an emphasis on developing the framework of government and business relationships.

Politics and Good Governance: The political aspect of relationship building and a commitment to good governance are essential elements of developing the strength of the U.S.-GCC relationship going forward. Ultimately, to be successful in building U.S.-GCC ties, government support both in the U.S. and the GCC is essential and should come by way of developing effective and enabling legal and regulatory environments. In addition, a strong relationship exists between governance, investment, and economic growth. To attract private capital and foreign investment, good governance is essential.

Opportunities abound for investment in a multitude of sectors as the GCC ramps up its economic diversification away from dependence on oil revenues. For true growth and development to occur within the U.S.-GCC relationship, what is required will be improved cross-cultural understanding and communication, as well as support on economic, commercial, and political fronts and cooperation between the public, private, and third sectors. With that foundation in place, the U.S.-GCC relationship will have the potential to be a lasting and dynamic force in the global economy.

INTRODUCTION

The U.S. Chamber of Commerce has recently undertaken a new initiative focusing on issues central to the U.S.-GCC commercial relationship. This initiative will leverage the Chamber's established position as the premier business advocacy organization to serve the specific interests of American and Gulf-based entities in the U.S. Accordingly, the Chamber seeks to engage Gulf companies to support and provide strategic direction for this effort.¹ Recognizing the importance of the new initiative and noting the GCC as a region of tremendous growth and opportunity, while building upon the work of the U.S.-Bahrain Business Council, the U.S.-UAE Business Council, and the U.S.-Saudi initiative, this report aims to highlight the trade and investment environment within the context of the U.S.-GCC relationship, as well as suggest areas for growth and opportunities to move the relationship forward. As such, this report is organized as follows: section one gives a background and overview of the GCC member states and illustrates the current trade, investment, and historical relationship between the U.S. and GCC countries; section two discusses the macroeconomic and investment environment in each country, as well as current growth opportunities; the final section attempts to summarize selected areas of opportunity for moving the U.S.-GCC commercial relationship forward, while highlighting the importance of Sovereign Wealth Funds and the role of Chambers of Commerce and Investment Promotion Agencies. This report concludes that U.S.-GCC relationship historically has been based on energy (oil trade) and security concerns, but has developed into a broader economic relationship with many opportunities and strong potential for expansion. However, for true growth and development to occur within the U.S.-GCC initiative, what is required will be improved cross-cultural understanding and communication, as well as support on economic, commercial, and political fronts and cooperation between the public, private, and third sectors.

BACKGROUND AND OVERVIEW

GCC Background

The Gulf Cooperation Council (GCC) is made up of six member countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. In May of 1981, the six countries signed a framework agreement establishing the Gulf Cooperation Council and its charter. Every three months the GCC countries' foreign ministers meet and the Heads of States hold an annual summit. The goal of the GCC is to encourage "coordination, integration, and inter-connection among the Member States in all fields in order to achieve unity."² The GCC is tasked with developing similar policies and regulations for its member states on finance, the economy, trade and customs, legislation, tourism, mining, agriculture, and scientific research.³

The six countries also decided to coordinate foreign policy, defense and security planning under the auspices of the GCC. Regional security threats arising from the Iraq-Iran war were a main catalyst for the group's formation.⁴ Since its formation, the GCC as a group has undertaken a united position on a number of foreign policy issues. For example, the GCC decided in 1994 to end its secondary and tertiary boycotts against Israel. The GCC, at the request of Kuwait,

¹ U.S. Chamber of Commerce, US-GCC Relations Initiative

² "Introductions- Concepts and Foundations." <http://gcc-sg.org/Foundations.html>.

³ "Objectives." <http://gcc-sg.org/Foundations.html>.

⁴ "Country Profile 2007: Saudi Arabia". *Economic Intelligence Unit*. London. 2007. www.eiu.com, p. 54.

deployed its collective defense force, known as the “Peninsula Shield”, in 2003 as part of Operation Iraqi Freedom.⁵ The second Iraq war resulted in some tensions among the GCC members over varying positions with regard to the U.S. invasion of Iraq. In December of 2006, with concerns over Iran’s nuclear program, the GCC announced that it would undertake a study on a potential GCC-wide peaceful nuclear power program.⁶ Recently, the GCC has seemed to be more cordial towards Iran, with an increasing number of interactions occurring between the GCC nations and Iran. In December 2007, the President of Iran, Mahmoud Ahmadinejad, was invited as an observer to attend the GCC Heads of State meeting.⁷

Economic cooperation and partnership is an essential element of the GCC. The goal of full economic integration is being carried out by the GCC at an incremental pace. The first step towards integration began in 1983 with the establishment of a free trade zone between the member states. As such, sales of products of local origin from any of the GCC countries to another do not face any tariffs.⁸ On January 1, 2003, the Gulf Cooperation Council established itself as a customs union, developing a common external tariff.⁹

The GCC is continuing to work towards harmonizing and integrating many other elements of their members’ economies. Progress has been made with the creation of the Joint Agricultural Policy, Unified Industrial Development Strategy, and the General Framework of the GCC Population Strategy.¹⁰ The GCC is also working towards establishing a monetary union, a common market, and a unified currency based on the dollar. They hope to have full economic integration accomplished by 2010.¹¹ Efforts have stalled somewhat as the GCC’s announcement in December 2007 to establish a GCC common market on January 1, 2008 has not matriculated into any actions. The GCC announcement regarding a common market called for equal rights for all GCC citizens and companies, including full access to residency, education and employment, along with rights to invest, own stocks, and own property across the GCC countries.¹² Changes to domestic laws to adhere to any future common market policies will be significant, in particular because many GCC countries maintain rules regulating foreign ownership of stocks, investments, and land. Further concerns have arisen over the likelihood of full economic integration and a monetary union by 2010 as Oman announced in 2006 that it would not be ready to join a GCC monetary union in 2010.¹³

⁵ Bureau of Near Eastern Affairs. U.S. Department of State. “Background Note: Bahrain”. October 2007. <http://www.state.gov/r/pa/ei/bgn/26414.htm>.

⁶ “Country Profile 2007: Qatar”. *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 44.

⁷ “Country Profile 2007: UAE”. *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 44.

⁸ “Areas of cooperation, economic cooperation.” <http://gcc-sg.org/cooperation.html#coop5>.

⁹ U.S. Foreign and Commercial Service. U.S. Department of Commerce. “GCC Customs Union”.

<http://web.ita.doc.gov/ticwebsite/meweb.nsf/f41c595bf093a662852566f2004cfcf6/3e14c10a753ad07b85256eed006f9e88?OpenDocument>.

¹⁰ “Areas of cooperation, economic cooperation.” <http://gcc-sg.org/cooperation.html#coop5>.

¹¹ U.S. Foreign and Commercial Service. U.S. Department of Commerce. “GCC Customs Union”.

<http://web.ita.doc.gov/ticwebsite/meweb.nsf/f41c595bf093a662852566f2004cfcf6/3e14c10a753ad07b85256eed006f9e88?OpenDocument>.

¹² “Country Profile 2007: UAE.” *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 11.

¹³ “Country Profile 2007: Bahrain.” *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 42.

The GCC Member States

The Kingdom of Bahrain (Bahrain) is an archipelago made up of 36 islands, which together are roughly four times the size of Washington, D.C. The four main islands are connected by causeways and account for almost 95% of Bahrain's desert land mass. In 2007, Bahrain's population equaled just fewer than 709,000 people, of which 33% are non-nationals (Asians, other Arabs, and Iranians). Its population growth for 2007 was 1.4%. The majority of the population is Shia; however, the royal family and elite business leaders are Sunni, resulting in political and social tensions.¹⁴ Bahrain gained its independence in 1971 and maintains a constitutional monarchy.¹⁵ The official language is Arabic, with English being widely spoken.¹⁶

The State of Kuwait (Kuwait) is around the size of New Jersey and is made up of flat desert plains. At the end of 2006, its population was almost 3.1 million people, which included 2.1 million non-Kuwaiti citizens. Its annual population growth rate was 3.5% in 2006. Kuwait gained its independence in 1961 and maintains a constitutional hereditary monarchy.¹⁷ Kuwait is the only GCC country where English is an official second language. The press in Kuwait is one of the most active and independent presses in the Arab world.¹⁸

The Sultanate of Oman (Oman) is the second largest GCC member at roughly the size of New Mexico. Unlike other GCC countries, Oman has mountains, plains and arid plateau terrain. Its population in 2006 was 3.2 million, with an annual growth rate of 3.2%. In addition to Arabs, Oman is made up of East Africans, South Asians, and Baluchi (Iranian) ethnic groups. English, Urdu and Swahili are widely spoken within the country, along with the official language of Arabic.¹⁹ Oman maintains a monarchy, led by Sultan Qaboos bin Said al-Said.²⁰ Unlike other GCC states, Oman was never formally a colony of Britain.²¹

The State of Qatar (Qatar) is approximately the size of Connecticut and Rhode Island together and is made up mostly of flat desert land. In 2007, Qatar's population grew by 2.4% to equal around 900,000 people. Its residents are made up of Qatari Arabs, other Arabs, Indians (approximately 20% each) and others from South and Southeast Asia. Qatar received its independence in 1971 and maintains a constitutional monarchy.²²

The Kingdom of Saudi Arabia (Saudi Arabia) is by far the largest (approximately one-fifth of the size of the continental United States) and most populated GCC country. The country is mostly desert with some mountains in the southwest. Its population in 2007 was 27.6 million people,

¹⁴ "Country Profile 2007: Bahrain." *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 4

¹⁵ Bureau of Near Eastern Affairs. U.S. Department of State. "Background Note: Bahrain". October 2007. <http://www.state.gov/r/pa/ei/bgn/26414.htm>.

¹⁶ "Country Profile 2007: Bahrain". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 4.

¹⁷ Bureau of Near Eastern Affairs. U.S. Department of State. "Background Note: Kuwait". June 2007. <http://www.state.gov/r/pa/ei/bgn/35876.htm>.

¹⁸ "Country Profile 2007: Kuwait". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 3-4.

¹⁹ "Country Profile 2007: Oman". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 3.

²⁰ Bureau of Near Eastern Affairs. U.S. Department of State. "Background Note: Oman". June 2007. <http://www.state.gov/r/pa/ei/bgn/35834.htm>.

²¹ Central Intelligence Agency. "The World Factbook: Oman". March 20, 2008. <https://www.cia.gov/library/publications/the-world-factbook/geos/mu.html>.

²² Bureau of Near Eastern Affairs. U.S. Department of State. "Background Note: Qatar". July 2007. <http://www.state.gov/r/pa/ei/bgn/5437.htm>.

consisting of 22 million Saudis and 5.6 million foreign nations. Saudi Arabia's population grew by 2% in 2007 and a significant portion, close to 40%, is under the age of 15.²³ The country is predominately Sunni Muslim. Saudi Arabia was unified in 1952 and maintains a monarchy with a Council of Ministers and a Consultative Council.²⁴

The United Arab Emirates (UAE), a federation of seven emirates — Abu Dhabi, Ajman, Dubai, Fujairah, Ras al-Khaimah, Sharjah, and Umm al-Qaiwain — was founded in December 1971. The country is mostly made up of desert land and is roughly equal in size to Maine. The UAE's population in 2007 was 4.4 million people, yet only 15 – 20% are citizens. Its population grew rapidly in 2007 at approximately 4%.²⁵ Most of the population lives along UAE's coastal area. English is widely understood throughout the country.²⁶ The UAE received its independence in 1971 and maintains a federation of emirates-style government. The executive branch is made up of a seven member Supreme Council of rulers representing each emirate.²⁷ Abu Dhabi is the wealthiest of the seven emirates (accounting for almost 60% of UAE's total GDP in 2006) and the rulers of this emirate have become the President of UAE since the country's independence. The Dubai emirate has the second strongest economy.²⁸

Economic Overview

The economies of the GCC member countries have all experienced strong economic growth over the last few years. In 2006, the GDP of the GCC as a whole equaled \$712 billion. Saudi Arabia by far had the largest GDP of any GCC state, accounting for almost one half of the GCC's total GDP. For comparison, in 2006, the United State's GDP was \$13.2 trillion.²⁹ While the U.S.'s GDP level is higher, the GCC countries in general have experienced stronger levels of GDP growth over the last few years. GCC member nations reported real GDP growth rates in 2006 of between 4 and 11%, while the U.S.'s real GDP growth rate was only 2.9%.³⁰ The U.S.'s GDP per capita of \$44,100 in 2006 is higher than that of all GCC member states, except Qatar.³¹ Strong GDP and GDP growth rates in the GCC region are based on large part to strong oil exports and revenue. While the GCC countries rely heavily on the oil industry, the countries have been working to diversify their economies. As part of the GCC's efforts to work towards the development of a GCC monetary union, it was agreed that all GCC countries would keep their currency pegged to the U.S. dollar. This practiced held until May of 2007, when Kuwait abandoned the peg. All other GCC countries maintain their long standing exchange rate policy of pegging to the U.S. dollar.³²

²³ "Country Profile 2007: Saudi Arabia". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 24.

²⁴ Bureau of Near Eastern Affairs. U.S. Department of State. "Background Note: Saudi Arabia". February 2008. <http://www.state.gov/r/pa/ei/bgn/3584.htm>.

²⁵ Bureau of Near Eastern Affairs. U.S. Department of State. "Background Note: UAE". February 2008. <http://www.state.gov/r/pa/ei/bgn/5444.htm>.

²⁶ "Country Profile 2007: UAE". *Economic Intelligence Unit*. London. 2007. www.eiu.com.

²⁷ Bureau of Near Eastern Affairs. U.S. Department of State. "Background Note: UAE". February 2008. <http://www.state.gov/r/pa/ei/bgn/5444.htm>.

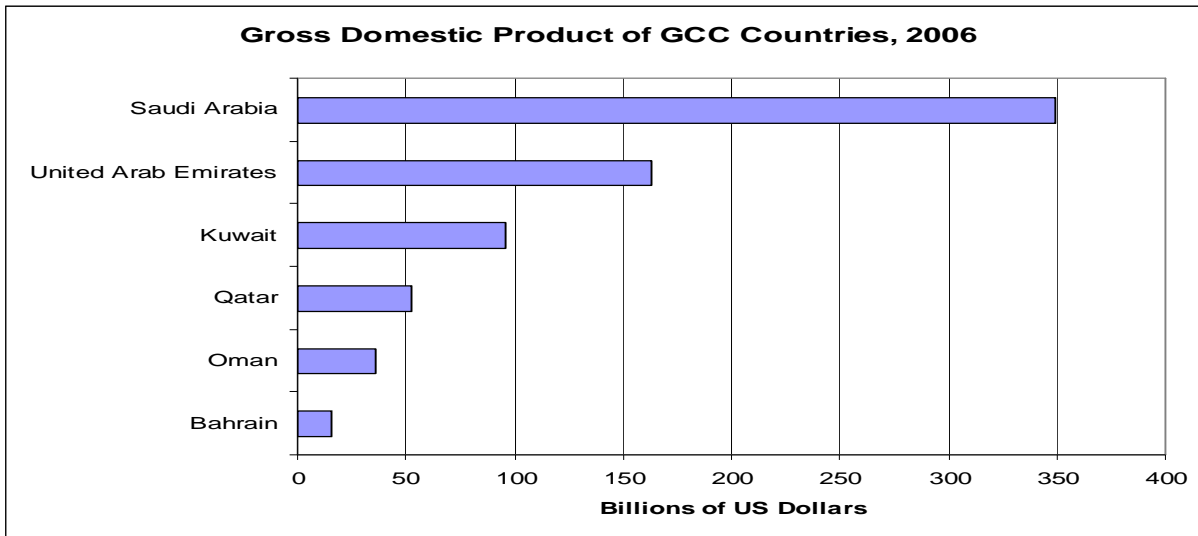
²⁸ "Country Profile 2007: UAE". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 4.

²⁹ International Financial Statistics, International Monetary Fund

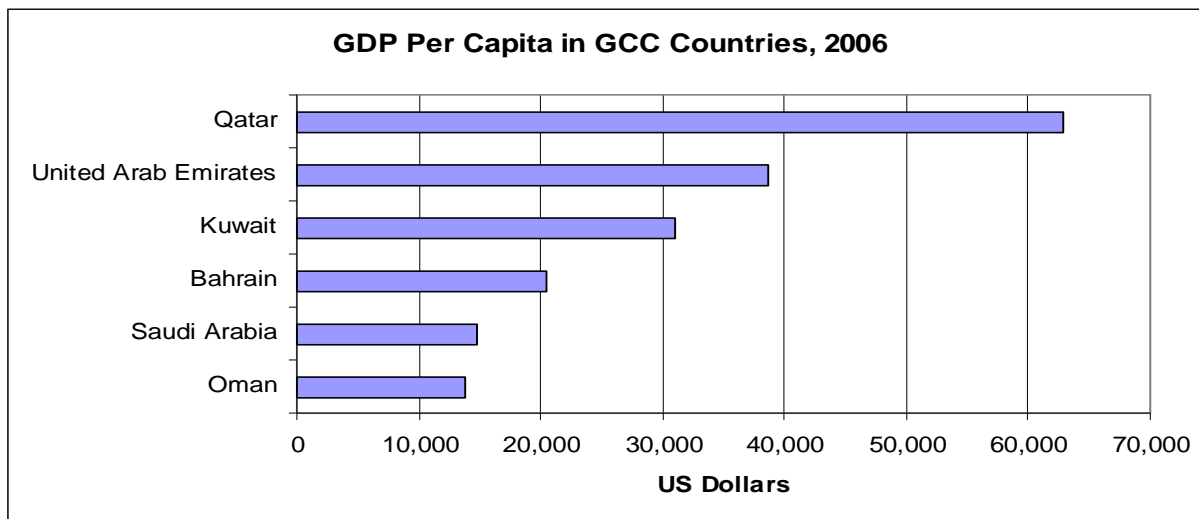
³⁰ U.S. Bureau of Economic Analysis. U.S. Department of Commerce. "Gross Domestic Product." <http://www.bea.gov/national/xls/gdpchg.xls>

³¹ U.S. Bureau of Economic Analysis. U.S. Department of Commerce. "National Data." http://www.bea.gov/scb/pdf/2008/03%20March/D-Pages/0308dpg_a.pdf

³² "Country Profile 2007: Kuwait". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 13, 24.



Source: *International Financial Statistics, IMF*



Source: *International Financial Statistics, IMF*

Bahrain

Bahrain's GDP in 2006 was \$15.35 billion, with an annual growth rate of 7.6% from 2005. Bahrain's real GDP growth rate rose on average of around 6% from 2000-2006.³³ The country's GDP per capita in 2006 was almost \$20,500. Bahrain's inflation level has been low over the last few years, at only 2.9% in 2006.³⁴ Bahrain's currency is the Bahraini dinar (BD) and has been pegged to the U.S. dollar at 376 BD to US\$1 since 1980.³⁵ Of the GCC countries, Bahrain is the most dependent on imports and has had historically high levels of import per GDP ratios. A

³³ WTO. "Trade Policy Review: Bahrain."

http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDDOCUMENTS/T/WT/TPR/S185R1-01.DOC.

³⁴ International Financial Statistics, International Monetary Fund

³⁵ "Country Profile 2007: Bahrain". *Economic Intelligence Unit*. London. 2007. www.eiu.com, p. 27.

significant portion of imports are crude oil from Saudi Arabia that Bahrain refines, processes and then re-exports.³⁶

Bahrain has been working to diversify its economy away from a dependency on oil. Its diversification efforts have focused on several sectors including: ship repair, oil refining, petrochemicals, aluminum and aluminum related industries, and financial services. Services have become an increasingly important element of Bahrain's economy and now count for roughly 75% of its real GDP and employ 50% of the country's workforce.³⁷ While diversification efforts have had a noticeable impact, the oil and gas sector still makes up approximately 70% of goods exports and 70% of government revenue.³⁸

Kuwait

Kuwait's GDP in 2006 was almost \$96 billion, with a 5% annual growth rate. GDP per capita is strong at just under \$31,000.³⁹ Real GDP growth in 2006 was 11.3% for Kuwait. Oil accounts for 50% of the country's nominal GDP. Furthermore, gross fixed investment accounted for 20% of nominal GDP in 2005.⁴⁰ In May 2007, Kuwait abandoned its currency's peg to the dollar and as such broke from the GCC consensus exchange rate policy of pegging to the dollar. Before the abandonment, the Kuwaiti dinar had been pegged directly to the dollar since 2003 and prior to that the dinar was pegged to a currency basket dominated by the U.S. dollar. Kuwait removed the direct peg out of growing concerns over the weakening of the U.S. dollar and the declining likelihood of a GCC monetary union occurring on schedule. Currently the Kuwait dinar is pegged to a basket of currencies, which is rumored to still be dominated by the U.S. dollar.⁴¹

Like most GCC countries, Kuwait's economy is dominated by oil. In addition to accounting for 50% of GDP, oil accounts for 80% of earnings from merchandise exports and 80% of the government's budget revenue. The country's manufacturing sector is focused mostly on downstream production of oil related industries, including petrochemicals and oil refining. After Iraq's invasion of Kuwait in the 1990s, the government looked to develop the private sector. However, concerns over the loss of government employment opportunities from less involvement in the economy, coupled with strong government revenue levels coming from strong oil prices have limited the attempts to wean the government's involvement in the economy. In 2005, government expenditure still accounted for 15% of nominal GDP and about one-third of total consumption expenditures. Exports are a significant source of Kuwait's GDP, over 60% in 2005. Strong exports, dominated by oil, have enabled Kuwait to maintain a sizable trade surplus.

Oman

Oman's GDP in 2006 was almost \$36 billion. Oman has the second smallest GDP among GCC countries and the lowest GDP per capita at only \$14,845 in 2006. GDP growth has been sizable

³⁶ "Country Profile 2007: Bahrain". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 38

³⁷ WTO. "Trade Policy Review: Bahrain."

http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDDOCUMENTS/T/WT/TPR/S185R1-01.DOC.

³⁸ Ibid.

³⁹ International Financial Statistics, International Monetary Fund

⁴⁰ "Country Profile 2007: Kuwait". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 22.

⁴¹ Ibid p. 13, 24.

and constant over the last few years, with a growth rate of 5.9% in 2006.⁴² Real economic growth was 4%.⁴³ Oman's currency, the Omani riyal has been pegged to the U.S. dollar at 385 ORs to US\$1 since the mid-1980s.⁴⁴ Inflation has been growing over the last few years, but remains low at only 3.2% in 2006.⁴⁵

Oman's economy significantly relies on hydrocarbons and oil, though oil is less significant for Oman than other GCC countries. Oman's oil reserves are limited and difficult to extract. In efforts to diversity away from oil, the Omani government is focusing on developing its natural gas sector, with exports of liquefied natural gas and petrochemicals.⁴⁶ Strong natural gas and oil exports, which account for roughly 85% of total exports, have enabled Oman to gain an \$11 billion trade surplus in 2006.

Qatar

Qatar's GDP in 2006 was \$52.7 billion and the fourth largest among the GCC countries. Qatar's GDP grew by 10% from 2006, while its real GDP value grew by a slightly smaller 7%. Qatar's strong GDP coupled with its small population (less than 900,000 people) enables it to have the highest GDP per capita in the GCC at almost \$63,000 per person.⁴⁷ Qatar's currency, the riyal, has been pegged to the U.S. dollar for over two decades at a rate of 3.64QR to US\$1. The weakening of the U.S. dollar has had an impact on Qatar's inflation rate, which increased to 11.8% in 2006.⁴⁸

Qatar has the third largest natural gas reserves in the world, behind Russia and Iran. Increasing output in gas and rising oil prices has helped propel Qatar's strong growth over the last few years. Oil revenue is a key source of government revenue, which is spent on infrastructure projects and public servant salaries. High oil prices since 2000 have resulted in large government surpluses, even at a time when the government is investing heavily as it works to build a new airport and port.⁴⁹ Oil accounted for over 35% of Qatar's GDP in 2005. Qatar is also the world's largest exporter of liquefied natural gas.⁵⁰ As a result of its large natural gas and oil reserves, Qatar's manufacturing sector is based mostly around gas-intensive industries, oil refining, and petrochemicals.⁵¹ Significant oil and gas exports have allowed Qatar to maintain a substantial current account surplus at over \$16 billion in 2005.⁵²

⁴² International Financial Statistics, International Monetary Fund

⁴³ "Country Profile 2007: Oman". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 24.

⁴⁴ Ibid p. 23

⁴⁵ International Financial Statistics, International Monetary Fund

⁴⁶ "Country Profile 2007: Oman". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 17-19.

⁴⁷ IMF IFS, "Country Profile 2007: Qatar". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p.21.

⁴⁸ Ibid p. 26

⁴⁹ "Country Profile 2007: Qatar". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 21, 23 .

⁵⁰ "Country Profile 2007: Qatar". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 3.p. 29

⁵¹ WTO. "Trade Policy Review: Qatar".

http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDDOCUMENTS/T/WT/TPR/S144-0.DOC. "Country Profile 2007: Qatar". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 34.

⁵² Ibid p. 39

Saudi Arabia

Saudi Arabia is the largest economy among the GCC member countries, with a GDP of almost \$350 billion in 2006. However, the country has the second lowest GDP per capita level at only \$14,733. The GDP growth for 2006 was less than 2005 at only 4.3%, the same level as the real growth rate.⁵³ Since 1986, Saudi Arabia's currency, the Saudi riyal, has been pegged to the U.S. dollar at a 3.745 SR to US\$1 ratio. The peg has mitigated the risk of interest rate and exchange instability that could otherwise have occurred from fluctuating oil prices and government spending policies.⁵⁴ Strong oil prices have resulted in massive budget surpluses for the Saudi government, equal to almost 30% of GDP in 2006. The recent budget surpluses have enabled the government to pay down some of its substantial debt levels.

Saudi Arabia's economy is driven by oil, which accounted for 50% of the nation's GDP in 2006. Saudi Arabia has the largest oil reserves in the world. Oil revenue is almost the sole source of government revenue and accounts for the vast majority of the nation's export revenue. Petroleum refining and petrochemicals are significant sectors of the economy as well. The government is also trying to diversify the economy away from a complete dependence on oil. The country's non-oil activities, including wholesale trading, finance, construction and agriculture, have been growing and are being conducted in large part by the private sector.⁵⁵ Petrochemicals and plastics are the largest non-oil export sector and have been rising, totaling \$20.5 billion in 2006.

UAE

The United Arab Emirates' GDP in 2006 was \$163 billion, up 23% from 2005.⁵⁶ The real GDP growth rate was 9.4%. UAE's GDP per capita was just under \$39,000.⁵⁷ UAE's currency is the dirham (Dh) and is pegged to the U.S. dollar at a rate of 3.67Dh to US\$1.⁵⁸ Inflation estimates have varied, with best approximations indicating that the UAE has experienced moderately rising inflation over the last few years. The IMF estimates UAE's inflation rate for 2006 to be 9.3%.⁵⁹ UAE has a positive current account balance resulting from a large goods trade balance and a smaller deficit in trade in services. In 2006, UAE's current account surplus was \$35.9 billion, roughly 22% of GDP, up significantly from the previous year's level of 11% of GDP.⁶⁰

The UAE is the second-largest economy in the Arab world, based in large part on oil revenue. UAE has the fifth largest reserves of oil among the OPEC member countries. Although the economy is still dependent on oil, UAE has been working hard to diversify away from the oil sector.⁶¹ Compared to 1997 when oil accounted for 40% of GDP, in 2006 the oil sector accounted for a smaller 26% of GDP. Revenue from oil is a key component of the government's

⁵³ International Financial Statistics, International Monetary Fund, "Country Profile 2007: Saudi Arabia". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p.33.

⁵⁴ Ibid p. 35

⁵⁵ "Country Profile 2007: Saudi Arabia". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p.35, 39.

⁵⁶ International Financial Statistics, International Monetary Fund

⁵⁷ International Financial Statistics, International Monetary Fund

⁵⁸ "Country Profile 2007: UAE". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 23.

⁵⁹ International Financial Statistics, International Monetary Fund

⁶⁰ "Country Profile 2007: UAE". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 43-44.

⁶¹ U.S. Trade Representative. "National Trade Estimate: UAE." 2007.

http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_NTE_Report/asset_upload_file676_10988.pdf.

revenue.⁶² As efforts to diversify away from dependence on oil, UAE is working to become a regional trading hub, similar to Hong Kong or Singapore.⁶³

Overview of the U.S.-GCC Relationship

Economic Relationship

In May of 2003, President Bush announced an initiative to help promote trade and investment by the Middle East with the United States and the world. The U.S.'s Middle East Free Trade Initiative includes efforts to help the remaining Middle Eastern countries join the WTO, assist in domestic reforms, develop greater economic ties with the U.S., and increase eligibility under the General System of Preference (GSP) program. Under this initiative and a goal to establish a U.S.-Middle East Free Trade Agreement (MEFTA), the U.S. expanded its economic relationship with the GCC countries.

Bahrain was the first GCC country that the U.S. began negotiations with under this new initiative. The U.S. signed a free trade agreement with Bahrain in September 2004. The FTA was approved by the U.S. Congress at the end of 2005 and went into force on August 1, 2006. In addition to eliminating duties on 100% of consumer and industrial goods and 81% of agricultural goods immediately, Bahrain agreed to open up its service market more than any previous U.S. FTA partner.⁶⁴ The U.S.-Oman FTA was signed in January 2006.⁶⁵ The agreement provided for significant new market access upon its entry into force, providing duty free access for almost all industrial goods. Oman will make 87% of its agricultural tariff lines duty free upon entry into force as well. The remaining Omani tariffs will be phased out over a 10 year period.⁶⁶ The U.S.-Oman FTA is still awaiting final implementation. The UAE and the United States also began negotiations on a free trade agreement in November 2004; however, to date, the negotiations have not been concluded.

In addition to the two FTAs, the United States has engaged in other agreements with GCC countries in effort to promote greater economic ties. The U.S. signed a bilateral investment treaty with Bahrain, to protect private investment, develop market-oriented policies, and promote U.S. exports.⁶⁷ Saudi Arabia, Qatar, UAE, Bahrain, and Kuwait have also signed Trade and Investment Framework Agreements (TIFAs) with the United States. TIFAs provide for

⁶² "Country Profile 2007: UAE". *Economic Intelligence Unit*. London. 2007. www.eiu.com. p. 26.

⁶³ Ibid p. 26

⁶⁴ United States Trade Representative. "United States and Bahrain Sign Free Trade Agreement." 9/14/2004. http://ustr.gov/Document_Library/Press_Releases/2004/September/United_States_Bahrain_Sign_Free_Trade_Agreement.html; United States Trade Representative. "Statement of USTR Susan C. Schwab Regarding Entry into Force of the U.S. - Bahrain Free Trade Agreement." 7/27/2006. http://ustr.gov/Document_Library/Press_Releases/2006/July/Statement_of_USTR_Susan_C_Schwab_Regarding_Entry_Into_Force_of_the_US_-_Bahrain_Free_Trade_Agreement.html.

⁶⁵ United States Trade Representative. "United States and Oman Sign Free Trade Agreement." 1/19/2006. http://www.ustr.gov/assets/Document_Library/Press_Releases/2006/January/asset_upload_file25_8774.pdf

⁶⁶ United States Trade Representative. "Oman". *2007 National Trade Estimate Report on Foreign Trade Barriers*. 2007. http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_NTE_Report/asset_upload_file177_10970.pdf.

⁶⁷ United States Trade Representative. "Bilateral Investment Treaties." http://www.ustr.gov/Trade_Agreements/BIT/Section_Index.html.

cooperation and consultation on trade and investment issues and are also seen as a precursor to a free trade agreement.

Military and Defense Relationship

The U.S. and the GCC nations have had a relatively strong relationship over the years built on security concerns within the Middle East region. The United States has become a major security and military ally for the GCC nations. In 2002, Bahrain was designated a ‘major non-NATO ally’ to the United States.⁶⁸ Qatar, the UAE and Kuwait are also major non-NATO allies of the United States. Being designated a major non-NATO ally highlights a close strategic partnership with NATO and enables arms purchases by these countries to face less review from the U.S. Congress.⁶⁹ Oman is also seen as a reliable regional ally, as President Bush personally contacted the Omani Sultan prior to the invasion of Iraq in 2003.⁷⁰ In 1996, the United States and the UAE signed a formal defense pact, which enables the U.S. to maintain troops in UAE and use the country’s airbases as needed.⁷¹ Under the U.S. and Kuwait defense pact signed in 1991, the U.S. agreed to ensure Kuwait’s security under its military umbrella.

The U.S.-GCC military relationship has included large arms sales, military trainings, basing arrangements, joint exercises, and direct military intervention.⁷² The U.S. currently has military facilities in Bahrain, Qatar, Kuwait, and the UAE. The U.S.’s headquarters for its Gulf naval force are located just outside Manama, the capital of Bahrain. The war in Iraq, though not formally endorsed by Bahrain, has brought tensions and prompted some demands for the closure of the U.S. base in Bahrain.⁷³ The U.S. central command for the initial invasion of Iraq was located at military bases in Qatar. The development of multiple military bases in Qatar was done in effort to transfer the U.S.’s security operations in the Gulf out of Saudi Arabia.⁷⁴ The U.S. renewed a ‘facilities access agreement’ with Oman in 2000 for 10 years, which enables the U.S. to pre-position equipment in Oman.⁷⁵ U.S. military advisors are permanently stationed in Kuwait, where they hold military exercises regularly.⁷⁶

The stationing of U.S. troops in Saudi Arabia after Iraq’s invasion of Kuwait became very contentious and has been a problem for the U.S.-Saudi relationship. Tensions arose after the September 11th attacks as Saudi Arabia was chastised by the U.S. media and some politicians for its ‘sympathetic attitudes towards radical Islamists.’ Additionally, many within Saudi Arabia were against the stationing of U.S. troops on holy Muslim land. Despite these tensions, military cooperation remained, with the Saudis providing covert support during the Iraq invasion in 2003 and during the war in Afghanistan. In 2003, the U.S. and Saudi Arabia mutually decided that the

⁶⁸ “Country Profile: Bahrain”. *Economic Intelligence Unit*. www.eiu.com. 2007. p. 14.

⁶⁹ “Country Profile: Kuwait”. *Economic Intelligence Unit*. www.eiu.com. 2007. p. 14.

⁷⁰ “Country Report: Oman.” *Economic Intelligence Unit*.. www.eiu.com . 2007. p. 3.

⁷¹ “Country Report: UAE.” *Economic Intelligence Unit*.. www.eiu.com . 2007. p. 4.

⁷² Congressional Research Service. “The Gulf Security Dialogue and Related Arms Sales Proposal.” 1/17/2008. <http://www.fas.org/sgp/crs/weapons/RL34322.pdf>.

⁷³ “Country Profile: Bahrain”. *Economic Intelligence Unit*. www.eiu.com. 2007. p. 14.

⁷⁴ “Country Profile: Qatar”. *Economic Intelligence Unit*. www.eiu.com. 2007. p. 11-12.

⁷⁵ “Country Report: Oman.” *Economic Intelligence Unit*.. www.eiu.com . 2007. p. 3.

⁷⁶ “Country Profile: Kuwait”. *Economic Intelligence Unit*. www.eiu.com. 2007. p. 14.

U.S. military presence in Saudi Arabia should end, although U.S.-Saudi security and intelligence cooperation continues.⁷⁷

Recent Activity Impacting the U.S.-GCC Relationship

President Bush visited four GCC countries (Bahrain, Kuwait, UAE and Saudi Arabia) during his January 2008 Middle East trip. The President chose to give his ‘center piece’ speech while in Abu Dhabi, UAE.⁷⁸ While U.S.-GCC relations appear strong, tensions may arise over the different light in which the GCC and the U.S. view Iran. Although there were initial fears over Iran’s nuclear arms program by the GCC, since the U.S. intelligence report came out indicating that Iran has suspended its nuclear programs, the GCC has taken a more cordial attitude towards Iran. Mahmoud Ahmadinejad was invited to attend the GCC Heads of State meeting in December 2007, representing Iran as an observer nation. Additionally, the Iranian President has visited and met with high level officials in a number of GCC countries.⁷⁹ At the same time, many GCC countries are concerned about Iran and their close proximity to the nation. Furthermore, many are fearful that any conflict between the U.S. and Iran will place their country in harms way.

In May 2006, the United States launched a new initiative, the Gulf Security Dialogue (GSD), to revitalize the U.S.-GCC security cooperation. The GSD’s objectives are to promote U.S.-GCC (and intra-GCC) cooperation on “common perceived threats.” The GSD will provide the framework for all nations to engage on six key issues: the improvement of GCC defense capabilities and interoperability; regional security issues; counter-proliferation; counterterrorism and internal security; critical infrastructure protection; and commitments to Iraq. In order to carry out the objectives of the GSD with regards to the defense capabilities of the GCC, the U.S. proposed a series of arm sales covering maritime, air and missile defense systems.⁸⁰

The U.S.–GCC Trade Relationship

U.S. goods exports to the GCC have grown substantially over the last five years, more than doubling between 2003 and 2007. GCC goods exports to the U.S. have also grown significantly, almost doubling from \$22 billion in 2003 to almost \$43 billion in 2007. From 2003 to 2007, the GCC maintained a sizable trade surplus with the United States. In 2006, at its highest for the period, the GCC had a \$16 billion trade in goods surplus with the U.S. Amongst the individual GCC countries, in 2007, the United States maintained trade surpluses with three countries (UAE, Qatar and Oman) and a deficit in trade in goods with three countries (Saudi Arabia, Kuwait and Bahrain).⁸¹ GCC goods exports to the U.S. are dominated by oil and gas sales.

U.S. Goods Exports to GCC

In 2007, the United States exported over \$27.2 billion in goods to the GCC countries. Since 2003, U.S. exports to the GCC almost tripled. In 2007, the U.S. exported over \$10 billion in

⁷⁷ “Country Profile: Saudi Arabia”. *Economic Intelligence Unit*. www.eiu.com. 2007. p. 5-6.

⁷⁸ “Country Report: UAE.” *Economic Intelligence Unit*. www.eiu.com. 2007. p. 4.

⁷⁹ Ibid.

⁸⁰ Congressional Research Service. “The Gulf Security Dialogue and Related Arms Sales Proposal.” 1/17/2008. <http://www.fas.org/sgp/crs/weapons/RL34322.pdf>.

⁸¹ Based on calculations of USITC data, USITC. <http://dataweb.usitc.gov/>.

goods to the UAE alone, the U.S.'s largest export market in the GCC that year. U.S. goods exports were over \$1 billion in 2007 for all of the GCC countries, except Bahrain. Saudi Arabia and UAE are the most significant export markets in the GCC, together accounting for at least 75% of U.S. goods exports to the region from 2003 to 2007. The U.S. exports account for over 11% of UAE's total goods imports in 2006.⁸² Over the last five years, U.S. goods exports to Qatar, in particular, have sky rocketed, going from just under \$4 million in 2003 to over \$2.5 billion in 2007. Substantial growth occurred from 2003-2007 in U.S. exports to all GCC countries individually.⁸³

U.S. Goods Exports to GCC					
	<i>In Millions of U.S. Dollars</i>				
Country	2003	2004	2005	2006	2007
<i>GCC</i>	\$10,195	\$10,644	\$16,821	\$22,986	\$27,208
UAE	\$3,321	\$3,644	\$7,908	\$11,197	\$10,909
Saudi Arabia	\$4,300	\$4,678	\$5,559	\$7,262	\$9,847
Qatar	\$397	\$423	\$897	\$1,275	\$2,551
Kuwait	\$1,363	\$1,307	\$1,584	\$1,948	\$2,300
Oman	\$317	\$314	\$562	\$832	\$1,035
Bahrain	\$497	\$278	\$312	\$471	\$565

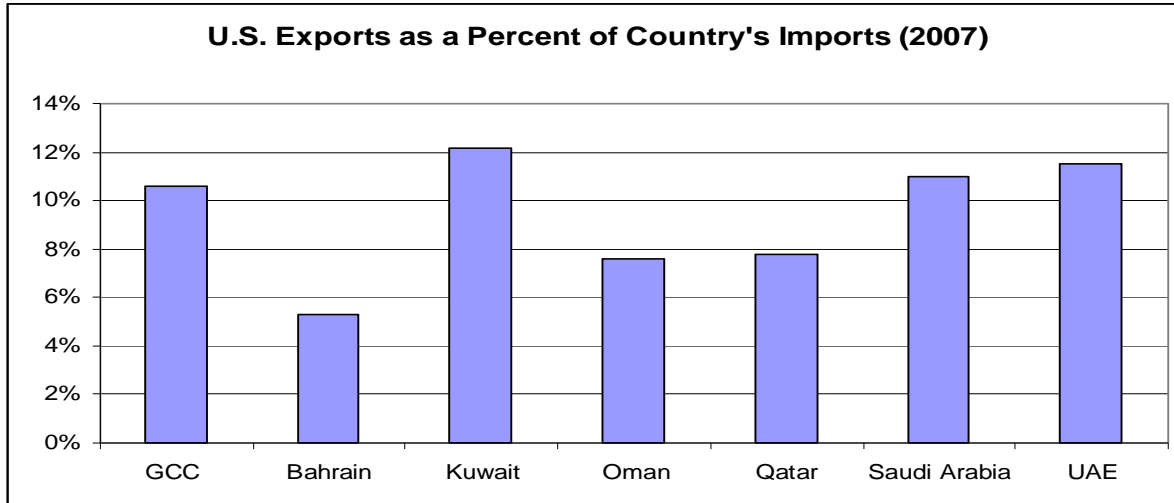
Source: USITC, <http://dataweb.usitc.gov/>.

In 2007, the United States exported over \$1.04 trillion in goods to the world. The GCC accounted for just over 3% of U.S. world exports. The U.S.'s top five export markets in 2007 were the European Community, Canada, Mexico, China and Japan respectively. The United Arab Emirates was the U.S.'s 14th largest export market, followed by Saudi Arabia as the 17th largest export market. Qatar, Kuwait, Oman and Bahrain ranked as the 39th, 41st, 54th and 66th U.S. export markets in 2007 respectively.⁸⁴ U.S. goods exports accounted for only 11% of all GCC imports. For individual GCC countries, U.S. exports account for between 5 and 12% of the country's total goods imports.

⁸² "Country Profile: UAE." *Economic Intelligence Unit*. www.eiu.com p. 42.

⁸³ U.S. International Trade Commission. Databaweb search. <http://dataweb.usitc.gov/>

⁸⁴ U.S. International Trade Commission. Databaweb search. <http://dataweb.usitc.gov/>



GCC Goods Exports to the U.S.

GCC exports to the United States have been expanding steadily over the last five years, almost doubling from 2003 to 2007. GCC goods exports to the U.S. reached \$42.8 billion in 2007. Saudi Arabia is the largest GCC exporter to the U.S., accounting for over 82% of all GCC goods exports to the U.S. in 2007. Kuwait is the second largest exporter, selling just over \$4 billion worth of goods to the U.S. in 2007, followed by UAE, Oman, Bahrain and Qatar.⁸⁵

GCC Goods Exports to the United States					
	<i>In Millions of U.S. Dollars</i>				
Country	2003	2004	2005	2006	2007
GCC	\$21,688	\$25,954	\$33,043	\$38,035	\$42,845
Saudi Arabia	\$17,112	\$20,434	\$26,150	\$31,142	\$35,284
Kuwait	\$2,125	\$3,214	\$4,132	\$3,903	\$4,191
UAE	\$1,134	\$1,122	\$1,368	\$1,314	\$1,334
Oman	\$607	\$422	\$484	\$782	\$933
Bahrain	\$378	\$406	\$432	\$632	\$626
Qatar	\$332	\$355	\$477	\$262	\$477

Source: USITC, <http://dataweb.usitc.gov/>.

In 2006, the GCC exported over \$216 billion to the world. U.S imports accounted for only 8% of all GCC exports. GCC exports in 2007 accounted for 2.2% of all U.S. goods imports. For the individual GCC countries, exports to the U.S. accounted for between 1 and 15% of the country's total goods exports to the world in 2006. The U.S. was a top five export market for only Saudi Arabia and Oman in 2006.⁸⁶

⁸⁵ U.S. International Trade Commission. Dataweb search. <http://dataweb.usitc.gov/>

⁸⁶ "Country Profile: Oman." *Economic Intelligence Unit*. www.eiu.com. p. 38. "Country Profile: Saudi Arabia." *Economic Intelligence Unit*. www.eiu.com. p. 51.

U.S. Goods Exports by Sector

U.S. goods exports to the GCC are dominated by sales of non-agricultural goods (also known as industrial goods). U.S. exports of industrial goods accounted for 95% of U.S. total goods exports to the GCC in 2007. Although agricultural exports to the GCC are small, they have been growing. U.S. exports of agricultural products to the GCC grew from only almost \$740 million in 2003 to \$1.4 billion in 2007. The largest GCC export market for U.S. agricultural products is Saudi Arabia, where exports equaled over \$707 million in 2007. U.S. exports in agricultural products to the world equaled \$93.7 billion, roughly 9% of total U.S. goods exports to the world. U.S. agricultural exports as a% of total goods exports to the GCC are slightly less than the percentage that agricultural exports count for total U.S. exports. Agricultural exports to the GCC by the United States account for just less than 1.5% of total U.S. agricultural exports to the world. U.S. exports to the GCC in non-agricultural goods account for 3% of the U.S. total goods exports to the world.⁸⁷

Trade in industrial goods represents the vast majority of trade between the U.S. and the GCC. The U.S.'s largest export sectors to the GCC in 2007 were aerospace products and parts, motor vehicles, agricultural and construction machinery, engines, turbines and power transmission equipment, and general purpose machinery. While these sectors account for the largest trade levels, other key export sectors have seen sizable growth over the last five years. U.S. exports in communications equipment, boilers, tanks and shipping containers, and rubber products more than tripled from 2003 to 2007. Iron, steel, and ferroalloy, aluminum, and ships and boats exports grew by more than five folds during the last five years.

Top Ten U.S. Export Sectors to GCC					
In Millions - Sector at NAICS 4 level					
Sector	2003	2004	2005	2006	2007
Aerospace Products and Parts (3364)	\$1,594	\$582	\$4,160	\$6,195	\$4,898
Motor Vehicles (3361)	\$1,186	\$1,425	\$2,548	\$4,073	\$4,259
Agriculture and Construction Machinery (3331)	\$798	\$938	\$1,303	\$1,790	\$2,423
Engines, Turbines, and Power Transmission Equipment (3336)	\$276	\$628	\$676	\$567	\$1,997
Other general purpose machinery (3339)	\$393	\$483	\$613	\$955	\$1,310
Navigational, Measuring, Electromedical, and Control Instruments (3345)	\$437	\$432	\$512	\$695	\$751
Electrical Equipment (3353)	\$195	\$208	\$264	\$326	\$670
Other fabricated Metal products (3329)	\$266	\$256	\$291	\$446	\$648
Basic Chemicals (3251)	\$224	\$315	\$379	\$356	\$608
Communications Equipment (3342)	\$200	\$231	\$257	\$373	\$589

Source: USITC, Dataweb

GCC Goods Exports by Sector

GCC exports to the U.S. are almost entirely composed of trade in non-agricultural goods. GCC agricultural exports to the U.S. were equal to \$15.6 million in 2007, up from \$8.5 million in 2003, yet they still only account for less than .05% of total GCC goods exports to the United

⁸⁷ U.S. International Trade Commission. Dataweb search. <http://dataweb.usitc.gov/>

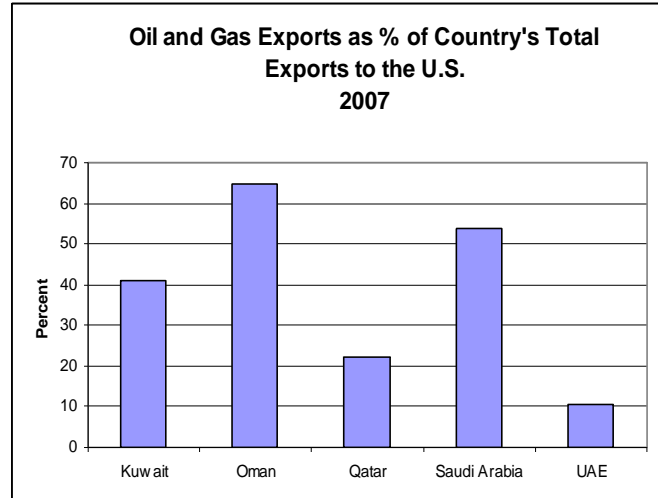
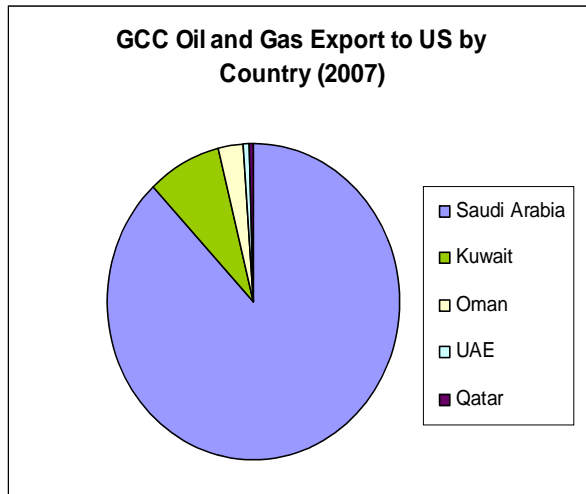
States. The UAE has the highest level of agricultural exports, at \$12.8 million in 2007, of all GCC countries.

Exports from the GCC to the U.S. are undeniably dominated by oil and gas, which accounted for just over 50% of all goods trade worth \$21.6 billion in 2007. If petroleum and coal exports (just under \$14.4 billion) are included, these two sectors account for almost 85% of GCC exports to the U.S. in 2007. Oil and gas exports from the GCC from 2003-2007 have stayed fairly constant as a percentage of GCC exports at around 50%. Petroleum and coal exports have grown slightly, up from 30% of total GCC goods export to the U.S. in 2003 to 34% in 2007. The GCC's other top export sectors to the United States in 2007 were basic chemicals, non-metallic minerals, and pesticides and fertilizers. Other GCC export sectors have been growing over the last five years. GCC exports to the U.S. of resins, synthetic rubber and fiber, and plastics have grown more than five-fold since 2003.

Top 10 GCC Export Sectors to the U.S.					
In Millions - Sector at NAICS 4 level					
Sector	2003	2004	2005	2006	2007
Oil and Gas (2111)	\$10,619	\$13,215	\$16,444	\$19,947	\$21,605
Petroleum and Coal Products (3241)	\$6,509	\$7,839	\$10,788	\$12,310	\$14,390
Basic Chemicals (3251)	\$2,161	\$2,492	\$2,889	\$2,552	\$3,275
Nonmetallic Minerals (2123)	\$332	\$398	\$536	\$744	\$874
Pesticides, Fertilizers, and Other Agricultural chemicals (3253)	\$277	\$329	\$489	\$361	\$601
Alumina and Aluminum and Processing (3313)	\$118	\$138	\$254	\$542	\$493
Apparel (3152)	\$675	\$617	\$441	\$303	\$203
Misc. Manufactured Commodities (3399)	\$85	\$100	\$169	\$219	\$193
Textile Furnishings (3141)	\$23	\$60	\$44	\$36	\$57
Fabrics (3132)	\$29	\$23	\$26	\$35	\$55

Source: USITC, Dataweb

Oil and gas exports to the U.S. are predominately from Saudi Arabia, accounting for 88% of GCC oil and gas exports. Oil and gas is the number one export sector to the U.S. for Kuwait, Oman and Saudi Arabia. Oil and gas accounted for 54% of Saudi Arabia's total goods exports to the U.S. in 2007, 65% of Oman's total exports to the U.S. and 41% for Kuwait. Bahrain's largest export sectors to the United States were alumina and aluminum, pesticides and fertilizers, and apparel in 2007. Bahrain is the only GCC country where oil and gas did not account for more than 10% of total exports to the U.S. in 2007.



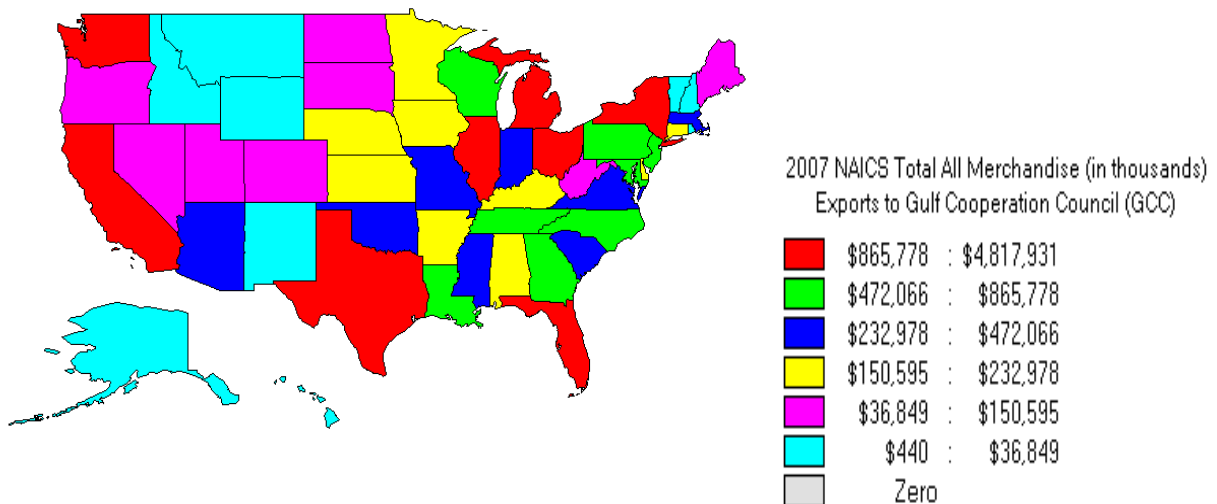
Source: USITC, Dataweb

U.S. Exports to GCC by State

Exports to the GCC from the United States are dominated by exports from three U.S. states: Texas, Washington and New York. Texas in 2007 exported \$4.8 billion in goods to the GCC, equal to 17% of total exports from the U.S. that year. Washington accounted for 13%, equal to \$3.7 billion, of the total U.S. goods and New York exported 12% of total U.S. goods to the GCC in 2007. The rest of the states individually accounted for no more than 6% of the U.S.'s total exports.⁸⁸

Ranking of U.S. Exports to the GCC by U.S. State

MapXtreme 2005 © SDK Developer License, © 2006 MapInfo Corp.

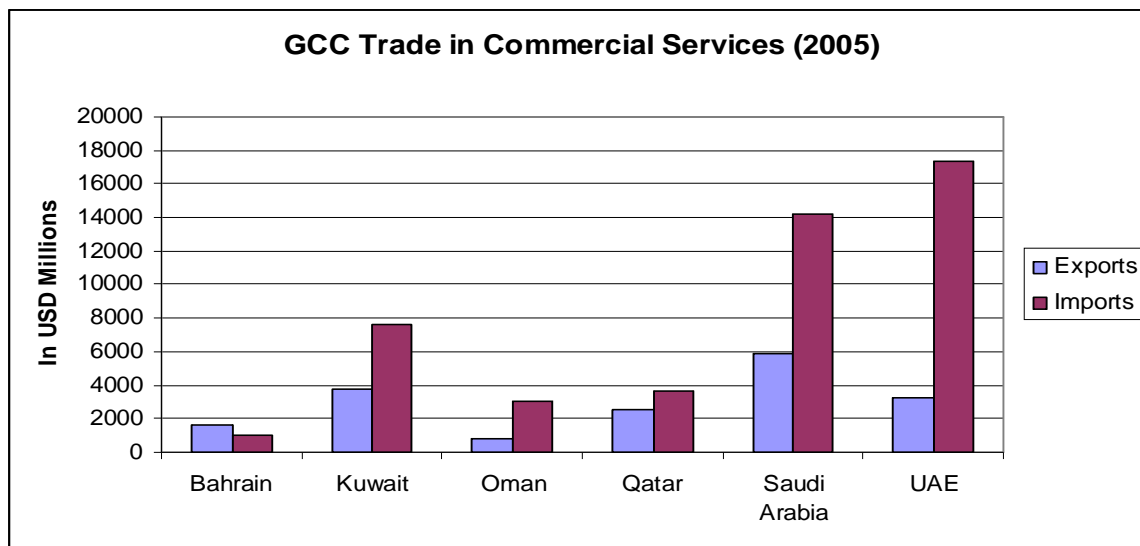


Source: Trade States Express, tse.export.gov.

⁸⁸ Trade States Express, International Trade Administration, www.tse.export.gov

U.S.-GCC Trade in Services

As many of the GCC countries have been working to diversify their economies away from a dependence on oil, their service sectors have been growing. Services are the most important for Bahrain, as this sector now accounts for 50% of the nation's total workforce and 75% of its real GDP.⁸⁹ Services now account for 30% of Qatar's GDP and 65% of its workforce.⁹⁰ In the United Arab Emirates, services account for 55% of GDP.⁹¹ They account for 45% of GDP in Kuwait.⁹² Services are the largest non-oil sector of the economy in Saudi Arabia.⁹³ While the service sector is growing in all GCC countries, in 2005, Bahrain was the only GCC country that was not a net service importer. UAE was the largest importer of services followed by Saudi Arabia and Kuwait. Saudi Arabia, Kuwait and UAE were the largest exporters of services.⁹⁴



Source: Trade Profiles, WTO

The United States in 2006 exported \$388.8 billion in commercial services to the world and imported \$307.8 billion, making the U.S. a net exporter of services. The U.S.'s top service export markets are the United Kingdom, Japan, Canada, Mexico and Germany. The U.S.'s top sources of service imports are the United Kingdom, Japan, Canada, Germany and Bermuda. The U.S. exported over \$1.5 billion in services to Saudi Arabia in 2005. Ten percent of the U.S. service exports to Saudi Arabia were in the financial service sector, while 3% were in communication

⁸⁹ World Trade Organization. "Economic Environment". Bahrain. Trade Policy Review. http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDOCUMENTS/T/WT/TPR/S185R1-01.DOC.

⁹⁰ World Trade Organization. "Summary Observations." Qatar. Trade Policy Review. http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDOCUMENTS/T/WT/TPR/S144-0.DOC.

⁹¹ World Trade Organization. "Summary Observations". UAE. Trade Policy Review. http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDOCUMENTS/T/WT/TPR/S162R1-00.DOC.

⁹² "Country Report: Kuwait". *Economic Intelligence Unit*. www.eiu.com. p. 6.

⁹³ "Country Report: Saudi Arabia." *Economic Intelligence Unit*. www.eiu.com. p. 14.

⁹⁴ World Trade Organization. Trade Profiles. <http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E>

services and computer and information services respectively.⁹⁵ Saudi Arabia exported \$17 million in business, professional and technical services, \$117 million in travel, passenger fares and transportation services, and \$446 million in private service trade to the U.S. in 2006.⁹⁶

GCC Customs Union & Country Tariff Profiles

The GCC established a customs union on January 1, 2003. All six member nations agreed to apply a common external tariff (CET) on all goods imports from outside the customs union. Trade between the six custom union members would not face any duties. The common external tariff was set at 5% for most products. Additionally, 417 products, mostly food, industrial and medical products, are duty free.⁹⁷ Each country is allowed to have country specific exemptions from the CET, which must be approved by the GCC.⁹⁸ Bahrain maintains exceptions from the CET on alcohol, which has a 125% tariff and tobacco which faces a 100% tariff. Kuwait, Saudi Arabia, UAE, and Oman also maintain a 100% tariff on tobacco.⁹⁹ Oman maintains exceptions to the CET for pork, alcohol products, edible oils, and a few agricultural products.¹⁰⁰ Saudi Arabia has the largest number of breaks from the CET, by applying higher tariff rates (12 or 20%) on a large number of products, including textile and apparel products, furniture, mineral water, and plastic pipes, in order to protect local industry.¹⁰¹ Despite the exemptions and some problems with implementing the CET, the GCC customs union is the largest trading block in the Arab world.¹⁰²

The establishment of the customs union resulted in a decrease in most of the GCC countries' average tariffs, except for UAE who had to raise its tariff rates to meet the CET rate.¹⁰³ The chart below lays out the average bound and applied rates for the GCC countries. Compared to other large developing countries, for the most part, the GCC countries have lower average applied tariff rates. For example, in 2006, Brazil's average tariff on all goods was 12.3%, China's was 9.9% and India's was 19.2%. Compared to developed countries, the GCC's average applied

⁹⁵ United Nations. UN Service Trade. <http://unstats.un.org/unsd/servicetrade/default.aspx>.

⁹⁶ U.S. Bureau of Economic Analysis. U.S. Department of Commerce. "U.S. International Services: Cross-Border Trade 1986-2006." 2006. <http://www.bea.gov/international/intlserv.htm>.

⁹⁷ Joint Standing Committee on Foreign Affairs, Defense and Trade. Parliament of Australia. "Appendix C: The Gulf Cooperation Council (GCC) Customs Union". <http://www.aph.gov.au/HOUSE/committee/jfadt/gulfstates/report/appendixc.pdf>. p. 1.

⁹⁸ U.S. Trade Representative. "Bahrain". 2007 National Trade Estimate Report on Foreign Barriers. 2007. http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_NTE_Report/asset_upload_file660_10928.pdf.

⁹⁹ U.S. Trade Representative. "Kuwait". 2007 National Trade Estimate Report on Foreign Barriers. 2007. http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_NTE_Report/asset_upload_file607_10960.pdf.

¹⁰⁰ U.S. Trade Representative. "Oman." 2007 National Trade Estimate Report on Foreign Barriers. 2007. http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_NTE_Report/asset_upload_file177_10970.pdf.

¹⁰¹ U.S. Trade Representative. "Saudi Arabia." 2007 National Trade Estimate Report on Foreign Barriers. 2007. http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_NTE_Report/asset_upload_file211_10978.pdf, Joint Standing Committee on Foreign Affairs, Defense and Trade. Parliament of Australia. "Appendix C: The Gulf Cooperation Council (GCC) Customs Union".

<http://www.aph.gov.au/HOUSE/committee/jfadt/gulfstates/report/appendixc.pdf>. p. 1

¹⁰² "Country Profile: UAE". *Economic Intelligence Unit*. www.eiu.com. p. 43.

¹⁰³ Ibid.

tariffs on all goods are a little higher. The U.S. in 2006 had an average applied rate for all goods of 3.5%.¹⁰⁴

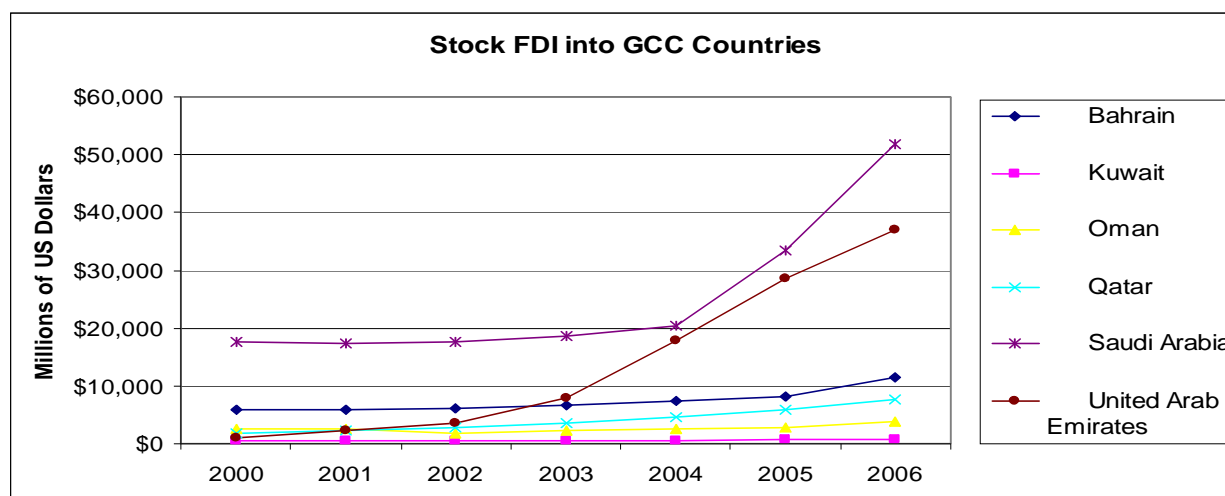
GCC Country's Average Tariffs (Applied Rates for 2006)				
	Avg. Bound Tariff (Total)	Avg. Applied Tariff (Total)	Avg. Applied (Agricultural)	Avg. Applied (non-Agricultural)
Bahrain	34.4%	5.1%	7.2%	4.8%
Kuwait	100%	4.9%	5.2%	4.8%
Oman	13.8%	5.3%	8.7%	4.8%
Qatar	16%	5.2%	7.6%	4.8%
Saudi Arabia	11.9%	5.2%	7.8%	4.8%
UAE	14.7%	5.0%	6.5%	4.8%

Source: Tariff Profiles from the WTO

The U.S.–GCC Investment Relationship

Investment in the GCC

In 2006, the total stock foreign direct investment (FDI) in the GCC countries was \$242 billion. Saudi Arabia had the largest stock FDI in 2006 of any GCC country, equaling \$51.8 billion. Since 2001, stock FDI has been increasing for all six GCC countries. Since 2003, stock FDI into Saudi Arabia and UAE has been growing rapidly. Flow FDI into the GCC has increased by 44% from 2005 to 2006.¹⁰⁵



Source: UNCTAD

The GCC in 2006 had almost \$15.5 billion in stock FDI from the United States. The U.S. direct investment in the GCC accounts for 0.7% of the U.S.’s total world-wide direct investment in

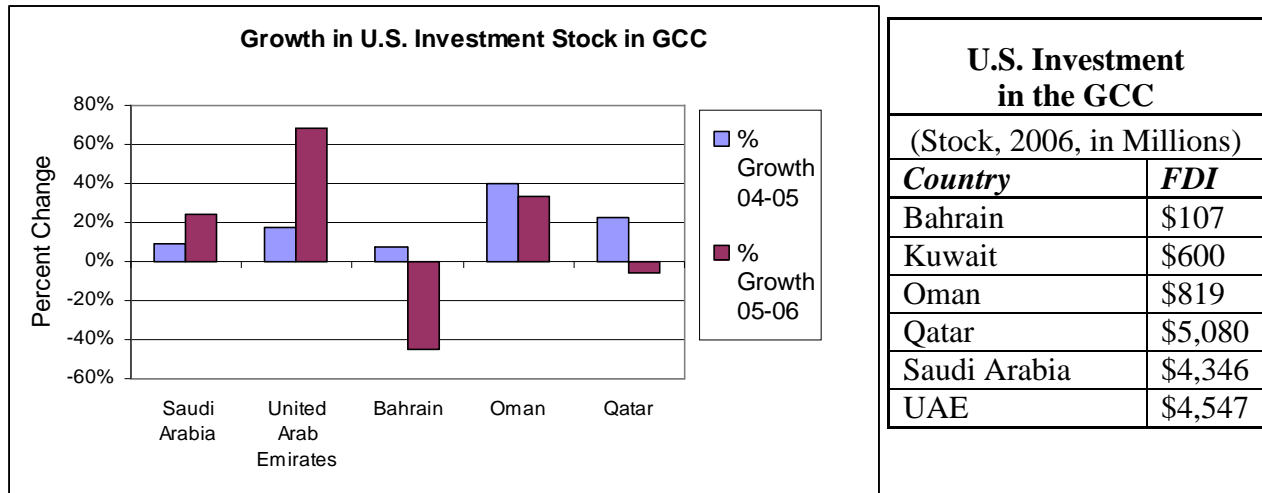
¹⁰⁴ World Trade Organization. Tariff Profiles.

<http://stat.wto.org/TariffProfile/WSDBTariffPFHome.aspx?Language=E>.

¹⁰⁵ UNCTAD. “Major FDI Indicators- U.S.” Country Factsheets. World Investment Directory Online.

<http://www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1>.

2006, which equaled \$2.38 trillion.¹⁰⁶ Of the GCC countries, Qatar has the most U.S. direct investment followed closely by UAE and Saudi Arabia.¹⁰⁷ Total stock FDI from the U.S. to the Gulf countries has grown over the last few years for most of the GCC countries.



U.S. Investment in the GCC	
(Stock, 2006, in Millions)	
Country	FDI
Bahrain	\$107
Kuwait	\$600
Oman	\$819
Qatar	\$5,080
Saudi Arabia	\$4,346
UAE	\$4,547

Source: U.S. Bureau of Economic Analysis; USTR 2007 National Trade Estimate

U.S. firms are investing and operating across the GCC countries in a variety of industries. In 2005, U.S. foreign affiliates employed over 10,000 people in both Saudi Arabia and the UAE.¹⁰⁸ There are over 750 firms operating in the UAE, in large part within Dubai’s free trade zone.¹⁰⁹ U.S. foreign affiliates in Saudi Arabia owed over almost \$20 billion worth of assets in 2005.¹¹⁰ In Qatar’s energy sector, the U.S. is the largest source of FDI, funding some 23 projects.¹¹¹ U.S. firms have invested heavily in the oil, natural gas and petrochemical sectors across the region. For example, ExxonMobil invested around \$10 billion to gain an equity share in two major Qatari liquefied natural gas companies¹¹² and ConocoPhillips is developing a 500,000-barrel-a-day refining facility in partnership with UAE’s International Petroleum Investment Company.¹¹³

¹⁰⁶ U.S. Bureau of Economic Analysis. U.S. Department of Commerce. “U.S. Direct Investment Position Abroad on a Historical-Cost Basis”. 2006. http://www.bea.gov/international/ii_web/timeseries2.cfm?econtypeid=1&dirlevel1id=1&Entitytypeid=1&stepnum=1.

¹⁰⁷ Ibid.

¹⁰⁸ Bureau of Economic Analysis. U.S. Department of Commerce. “U.S. Direct Investment Abroad , All Foreign Affiliates, Total Employment.” 2005, http://www.bea.gov/international/ii_web/timeseries1.cfm?econtypeid=1&dirlevel1id=2.

¹⁰⁹ Embassy of the United States in Abu Dhabi. “Ambassador’s Remarks.” 1/18/2007. http://abudhabi.usembassy.gov/ambassadors_remarks_at_rotary_club_of_dubai.html

¹¹⁰ Bureau of Economic Analysis. U.S. Department of Commerce. “U.S. Direct Investment Abroad , All Foreign Affiliates, Total Assets.” 2005.

¹¹¹ U.S. Commercial Service. U.S. Department of Commerce. “Doing Business in Qatar: Country Commercial Guide for U.S. Companies- 2007”. 2007. http://www.buyusainfo.net/docs/x_1996477.pdf.

¹¹² Ibid.

¹¹³ U.S. Commercial Service. U.S. Department of Commerce. “Doing Business in United Arab Emirates: Country Commercial Guide for U.S. Companies- 2007”. 2007. http://www.buyusainfo.net/docs/x_2542186.pdf.

Investment in the U.S.

In 2006, total stock FDI in the U.S. was \$1.79 trillion. Total flow FDI into the U.S. for 2006 was almost \$175.4 billion.¹¹⁴ Canada, the United Kingdom, and Japan were the largest sources of FDI into the United States in 2005. Together these three countries account for roughly 70% of the total FDI in the U.S.¹¹⁵ The OECD countries account for 94% of the foreign ownership of U.S. assets.¹¹⁶

In 2003, Kuwait had the largest reported stock FDI in the U.S. at \$1.2 billion, followed by Bahrain at \$288 million, UAE with \$39 million and Qatar at \$33 million.¹¹⁷ FDI from Saudi Arabia into the U.S. in 2002 equaled \$4.4 billion.¹¹⁸ Flow FDI from the GCC into the U.S. in 2003 equaled \$400 million from Saudi Arabia, \$169 million from Kuwait, \$108 million from UAE, and only \$7 million from Bahrain. Nine% of the flow FDI from Saudi Arabia in 2003 was directed into the wholesale trade sector in the U.S. Stock FDI world-wide from all GCC countries in 2003 was almost \$19.2 billion. Total stock FDI into the U.S. from the GCC in 2003 is unknown because of reporting limitations. Reported GCC stock investment into the United States in 2003 accounted for 8% of the region's total investment abroad. Total GCC direct investment abroad grew substantially, reaching almost \$42.8 billion in 2006.

In 2002, Saudi Arabia had the most foreign affiliates (88) operating in the United States. UAE had 68, Qatar had 18, Bahrain and Kuwait each had 13, and Oman had 4 foreign affiliates operating in the U.S.¹¹⁹ In 2005, the foreign affiliates from the GCC countries had total assets of just over \$19 billion.¹²⁰ Firms from across the GCC are investing into all sectors of the U.S. economy. For example, in November of 2007, Jafza International from UAE announced it would develop a new warehouse and transportation center in South Carolina, estimated to be a \$600 million investment.¹²¹

¹¹⁴ UNCTAD. "Major FDI Indicators- U.S." Country Factsheets. World Investment Directory Online.

<http://www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1>

¹¹⁵ U.S. Department of the Treasury. "Fact Sheet: Open Investment."

<http://ofii.org/insourcing/Open%20Investment%20Fact%20Sheet.pdf>.

¹¹⁶ Organization for International Investment. "Insourcing Statistics." <http://www.ofii.org/insourcing-stats.htm>.

¹¹⁷ Stock FDI from Saudi Arabia in 2003 is not provided, as its been compressed to avoid disclosing data on individual companies.

¹¹⁸ Hsu, Tanya C. "The United States Must Not Neglect Saudi Arabian Investment." Saudi-American Forum. 9/23/2003. http://www.saudi-american-forum.org/Newsletters/SAF_Essay_22.htm.

¹¹⁹ UNCTAD. "FDI Country Profiles: United States." World Investment Directory Online. September 2005. http://www.unctad.org/sections/dite_fdistat/docs/wid_cp_us_en.pdf.

¹²⁰ Bureau of Economic Analysis. U.S. Department of Commerce. "Foreign Direct Investment in the U.S. , All U.S. Affiliates, Total Assets."

[http://www.bea.gov/international/ii_web/timeseries2.cfm?econtypeid=2&dirlevel1id=1&Entitytypeid=1&stepnum=](http://www.bea.gov/international/ii_web/timeseries2.cfm?econtypeid=2&dirlevel1id=1&Entitytypeid=1&stepnum=1)

[1.](http://www.bea.gov/international/ii_web/timeseries2.cfm?econtypeid=2&dirlevel1id=1&Entitytypeid=1&stepnum=1)

¹²¹ Michael Moore. "The U.S. -UAE Trade and Investment Relationship." US-UAE Business Council. January 2008.

MACROECONOMIC AND INVESTMENT CLIMATE

U.S. Investment in the GCC

Bahrain

Bahrain is currently still under rule by the king Hamad bin Isa al-Khalifa, but tensions persist between the Sunni-dominated political elite and the majority of the population which are Shia and are generally well-off financially. The economy has been buoyed by rising domestic demand and public spending; as such, the EIU has forecasted a GDP growth rate of 6.6% in 2008-2009. As the Bahraini dinar (BD) is pegged to the U.S. dollar, risks of inflation and devaluation persist with the current weakening of the dollar against other currencies such as the euro and the British pound. The EIU forecasts an inflation rate of 4.7% per annum for 2008-2009 in Bahrain¹²².

According to the 2007 Index of Economic Freedom, Bahrain ranks second in the Middle East and thirty-ninth in the world¹²³. With its small area and high growth rate, the country has developed into one of the more advanced economies of the GCC. Oil revenues have become a significant portion of local income, but oil output from Bahrain's only onshore field, Awali, is declining. The country relies on a partnership with Saudi Arabia and its shared field of Abu Saafa. With this deficit, there is future potential for investment in developing Bahrain's oil resources. Another source of investment is the current privatization program, as the government is looking to sell off power provision and port management services. Bahrain also holds the largest financial sector of any of the GCC countries, with foreign-based banks being the vast majority of the offices located there. Large-scale infrastructure developments will also stimulate further market opportunities. In terms of raw materials, Bahrain has turned to petroleum processing and refining.

The current labor force comprises about 363,000 workers, which are mostly concentrated in the industry and services sectors. Unemployment is very high at about 15%, which has spurred the government to enact labor reforms encouraging employment of nationals in the private sector.¹²⁴ In July 2007, the government introduced a 1% salary tax to fund a new unemployment insurance scheme, the first type of unemployment benefits system generated by any Arab country. Additionally, employers must pay an extra fee to hire foreigners, as well as procure workers' visas.

No restrictions currently exist for protection against currency devaluation, even as the Central Bank of Bahrain is forecasted to maintain the currency peg with the steadily weakening U.S. dollar. Strong ties between the two countries as well as an aversion to exchange rate risk will prevent Bahrain from adopting a floating exchange rate regime in the future.¹²⁵

Currently, foreigners can own bonds and mutual funds on the Bahrain Stock Exchange (BSE). After a year of residence, foreigners can own or trade up to 49% of domestic joint-stock

¹²² "Country Profile: Oman." *Economic Intelligence Unit*. www.eiu.com. p. 2.

¹²³ "Middle East/North Africa" The Heritage Foundation, www.heritage.org, p. 68.

¹²⁴ U.S. Chamber of Commerce. "Bahrain Country Survey." Washington. 2006.

¹²⁵ *Ibid*.

companies' equities. However, only ten banking companies are completely open to foreign ownership on the BSE.¹²⁶

Although attracting foreign investment is one of Bahrain's top priorities, the government still maintains some barriers and strict labeling requirements. One of the first initiatives that the government enacted to address these barriers was a framework to open procurements to foreign suppliers in October 2002, which increases transparency in the country. A tender board was also formed to oversee all of these government tenders and purchases, processing all decisions valued at \$26,525 and higher. Under this threshold, individual ministries and departments may process the projects. However, a lack of coordination between government ministries is limiting the effectiveness of this measure. In an effort to streamline licensing and approval procedures, the Bahrain Investors Center (BIC) was created in October 2004 to ease the registration process of local and foreign firms. Import licenses for items to be sold in Bahrain; however, are only issued to local companies that are at least 51% Bahraini-owned. Non-residents are generally prohibited from purchasing land but foreign corporations established in Bahrain may be allowed to buy property on a case-by-case basis.¹²⁷

Oil and gas companies are taxed on 46% of income derived from the sale of hydrocarbon products and their derivatives, including exploration and refining. However, no personal income, property, corporate or value-added tax exists in the country. Municipal taxes are payable by individuals or companies that rent property within the country. A salary tax was implemented in 2007 to spur unemployment benefits, as well as another measure to tax companies, which hire foreigners. The only tax on sales or turnover is a tax on gasoline, levied at 12%.

Bahrain's political risks tie very closely to that of the United States' due to their long-standing partnership, both within the government and militarily. An agreement was signed in 1991 permitting access to Bahraini facilities by U.S. forces. This connection guarantees security by the U.S. Navy's Fifth Fleet, which harbors its ships and services at Juffair, five miles southeast of the capital. The government is also concerned about Iran's nuclear program and their influence over the domestic Shia population. Thus the emphasis in policy is toward negotiation so as to not polarize either of the two sentiments.

The country has developed one of the region's most progressive political systems. The absolute monarchy was transformed into a constitutional monarchy in 2002, and reforms were enacted giving women the right to vote. Within the government, however, religious parties have gained increasing amounts of power. This is especially seen with the most senior Shia religious leader, Sheikh Isa Qassim, as the general consensus is that Sheikh Qassim controls many of the decisions made by Al-Wefaq, the controlling political party that won a decisive majority in parliamentary elections in 2006.¹²⁸

¹²⁶ Ibid.

¹²⁷ U.S. Commercial Service. U.S. Department of Commerce. "Doing Business in Bahrain: A Country Commercial Guide for U.S. Companies 2004". 2004, p. 86.

¹²⁸ "Country Profile: Bahrain." *Economic Intelligence Unit*. www.eiu.com. p. 8.

Inflation is forecasted to rise to 5% in 2008 due to strong money supply growth and domestic demand, along with government spending and low interest rates. This is also coupled with the peg to the weak U.S. dollar. However, subsidies and inflows of labor will mitigate the rising inflation through a lessening of upward pressures on wages. The peg, however, will be maintained as insurance for economic stability within the country.¹²⁹

The lower house of Parliament recently approved two exploration and development agreements for offshore oil and gas in Bahrain in four blocks, which are being undertaken by companies from the U.S. and Thailand. As well, Bahrain is currently constructing underwater cables to connect to the existing GCC electricity grid in Kuwait, Qatar and Saudi Arabia, allowing the country to import one quarter of their current capacity needs. Following the current GCC trend, local electricity capacity is being attended to by the construction of an integrated water and power plant (IWPP) which produces both power and desalinated water at the same site. A 2,000 MW plant is already being expanded at al-Hidd and started operation in 2007. Another 1,200 MW IWPP is in the works at Ras Ad-Dur. A large port is scheduled to open later this year, which will be able to handle three times the ship sizes of the current infrastructure in the country. Thus, Bahrain has immense amounts of support and potential for development in terms of business investment in the country.

Bahrain has a multitude of opportunities available to U.S. businesses who potentially wish to invest in the country. Compared to other GCC countries, it has relatively little political and economic risk and in fact employs a variety of programs such as the Tender Board and the Bahraini Investors Center to attract foreign firms. Moreover, multiple other opportunities exist with the development of the IWPP program as well as the opening of the port in late 2008. Having a relatively open political system and being one of the only countries in the region to allow foreigners to invest into the stock market, Bahrain should be regarded as one of the primary targets for U.S. investment in the GCC.

Kuwait

Although sectarian tensions recently occurred between the Sunni majority and the Shia minority, this has died down due to high Shia representation in politics and the government's concern to avoid an open breach. Similarly to other GCC economies, increasing oil prices have kept revenues high, but the government will try to diversify and attract foreign direct investment. The EIU has forecasted a GDP growth rate of 8.1% in 2008, then a decrease to 5.7% in 2009. Inflation has remained above the historical average at around 6% in 2008, but will fall to 4.2%.¹³⁰

Kuwait employs an extensive amount of foreign-based workers, accounting for 80% of the total labor force. Most of these are low paid laborers from other Middle Eastern countries, South Asia and the Philippines. Employment is on the rise with the current trend in demand, boosting salaries and creating more opportunities. In February 2008, the Finance Minister, Mustafa Jassem al-Shamali, enacted a reform increasing wages and pensions for both publicly and

¹²⁹ Ibid, p. 6.

¹³⁰ "Country Profile: Kuwait." *Economic Intelligence Unit*. www.eiu.com. p. 2.

privately employed Kuwaitis by \$448. Natural resources in Kuwait include petroleum, natural gas, and fish.¹³¹

In May 2007, the Central Bank of Kuwait voted to re-peg the dinar to an undisclosed basket of currencies, rather than to the dollar as was done in 2003. The dinar has appreciated in the face of the weakening U.S. dollar, though, moving from KD 0.273:\$1 at that point to KD 0.26:\$1 by the end of 2008, as the Central Bank weighs the need to restrain inflation in the face of valuable oil exports. Sustained downward pressure on the Kuwaiti currency is highly unlikely, though, in the face of strong fiscal and current account surpluses combined with a high level of foreign reserves.¹³²

According to IMF reports, both residents and non-residents may hold foreign exchange accounts in Kuwait, and there are no restrictions on payments, transactions, transfers, or repatriation of profits. All purchases, though, must be made through a bank or a licensed foreign exchange dealer. Under the Foreign Investment Law, investors may also transfer all or part of their investment to another foreign or domestic investor.

Kuwait is a member of the WTO and WIPO. In 2004, the country was placed on the USTR's Priority Watch List due to high levels of copyright piracy and lack of progress in changing its laws to meet international obligations. Two years later Kuwait was downgraded from this status due to significant improvements in its IP regime, with many of its government ministries striving to combat book piracy, counterfeiting, and with the establishment of a new IPR committee and court. The U.S. hopes that Kuwait will continue to fight IP violations as part of the TIFA that was signed between the two countries, as sales of pirated, counterfeited goods and unauthorized computer software remains high.

Kuwait has not developed effective antitrust laws to foster competition, and its bureaucracy often resembles that of a developing country. According to the U.S. Department of Commerce, foreign companies need a local agent or sponsor to do any work with the government. The system is very time-consuming, requiring numerous transfers and paperwork. U.S. companies, in particular, have difficulty complying with specifications as these are mainly tailored to European companies. Licenses from the Ministry of Commerce and Industry are required to establish all new companies, and government authorization is required for any incentives offered by the Foreign Investment Law. This law authorizes foreign majority ownership in the computer, infrastructure, financial services and hospitality industries. It does not authorize foreign investment in projects involving oil or gas discovery. In spite of all of these restrictions, Kuwait has an open economy that has generally promoted a competitive market. However, like most GCC countries, owning stock in publicly traded companies, majority interest in businesses and real estate is limited to Kuwaiti citizens and citizens of other countries within the region under limited circumstances.¹³³

¹³¹ U.S. Chamber of Commerce. "Kuwait Country Survey." Washington. 2006.

¹³² "Country Profile: Kuwait." *Economic Intelligence Unit*. www.eiu.com. p. 6.

¹³³ U.S. Commercial Service. U.S. Department of Commerce. "Doing Business in Kuwait: A Country Commercial Guide for U.S. Companies 2007". February 2007, p. 42.

The only businesses subject to a corporate tax are foreign-owned firms and foreign-owned portions of joint ventures in Kuwait. Legislation has been enacted to reduce the maximum rate for this tax to 25%. Unlike most of the other GCC countries, Kuwait's government is balanced between the monarchy, ruled by the emir Sheikh Sabah al-Ahmed al-Jabr al-Sabah and a 65-seat legislature. Although the emir has the power to dissolve the parliament in the face of recent dissent from various Islamist, centrist and liberal groups, he generally favors a consensual approach and thus a state of political turmoil will not happen. Political risk may occur in the line of succession; however, as many members of the ruling family are in their 60s and 70s, potential rivalries will mostly be confined to private discussions. In foreign policy, like other GCC countries, Kuwait has established firm ties to the U.S. and may see tension especially with recent aggression from Iran. As well, periodic disagreements could arise with Iraqi demands for a write-off of debt to Kuwait, drilling for oil on its northern border, or potential cross-border incursions.¹³⁴

A massive fiscal surplus brought on by oil revenues and relatively constant budget spending has resulted in a balance of KD 8.7 billion for 2007-08. Inflation has risen to an average level of 6% in 2007 due to regional liquidity in the face of high oil prices, but will remain there for the near term due to the weakening U.S. dollar, as well as rising domestic demand. Price growth will be further restrained, though, by the government's extensive subsidies on core goods and services, which are unlikely to be changed due to political processes.

Most of the infrastructure that was damaged by the retreating Iraqi army in 1992 has been completely rebuilt and modernized. The Kuwaiti government has been concerned that the country is lagging behind its GCC neighbors in terms of infrastructure investment. In early February 2008, the government unveiled plans for a new rail link to run through Kuwait from the Saudi border to Iran and Iraq, as well as a metro system in the capital. Project Kuwait, a long-standing proposal to boost investment in the northern oil fields, is unlikely to be enacted due to political disagreement. Instead, technical agreements will be issued to develop this area in the form of build-operate-transfer (BOT) contracts. \$51 billion in oil field investment is planned to be put forth by 2013, according to the Kuwait Petroleum Corporation (KPC), to expand both upstream and downstream capabilities. Delays have occurred in the development of Kuwait's gas reserves and power generation capacity due to high costs and bid negotiations; as a result, the country is relying on foreign imports of these products from nearby countries, such as Qatar.¹³⁵

Kuwait has completely rebuilt since the Gulf War and has developed its country as a whole. Currency risk is low compared to other countries in the region, as the dinar is not pegged directly to the U.S. dollar. However, the ability to invest and transact business for foreign companies is severely limited and requires a lot of red tape to negotiate through. In addition, the Kuwaiti economy is catered more towards procurement and development of local businesses instead of inviting foreign companies, especially within profitable industries, such as oil and power. This is why the pace of construction and development of future infrastructure has fallen behind other GCC countries, as most of the existing units are government-owned and have been subjected to numerous delays. Similar to other GCC countries, only citizens can invest and buy property

¹³⁴ "Country Profile: Kuwait." *Economic Intelligence Unit*. www.eiu.com. p. 8.

¹³⁵ *Ibid.*, p. 12.

within the country. Thus, although Kuwait has many areas for development, the bureaucratic framework is acting as a large barrier to potential U.S. business opportunities within the country.

Oman

Oman is a remarkably stable sultanate in the southernmost part of the GCC consortium. Although it does not have the oil reserves and production on the same level as the five other members and exploration is more difficult due to its more complex geology, the country still has a very rich and buoyant economy. The EIU has forecasted a GDP growth rate of 5.2% for 2008-2009 reflecting strong domestic demand, with inflation increasing to an average of 7% for the same period.¹³⁶

Oman is a middle-income economy in the Middle East, which provides substantial access to its markets. Although Oman does produce oil and gas like most of its neighbors, it does not do so on the same scale. The country also produces agricultural products such as dates, limes, coconuts, wheat, bananas and meat goods such as poultry, cattle, fish and shellfish.

Recently, the government has focused on domestic small and medium enterprises (SMEs) within the country to take a larger share of the national budget of goods and services by encouraging bidding on public-sector tenders. As part of this “Origin Oman” campaign, these businesses are likely to bring maximum benefit to Omanis, both in financial and employment terms. In 2005, over 7,000 new businesses were registered with a capital investment of less than \$65,000. The SME fund created in 1998, Sharakah, was re-branded and increased its capital to OR 5 million, aiming to support twenty-five new projects over the next two years.¹³⁷

Oman currently has a high unemployment rate of 15%, but is seeking to decrease that number through its “Omanization” program, which aims to replace expatriate workers with local staff. As part of this development, multiple institutions of higher learning have been opened and initiatives have been enacted to force the private sector into providing more opportunities to citizens. The program covers all sectors, from tourism and hotel services to banking, engineering and communications.

The Omani rial is pegged to the U.S. dollar and will continue to remain this way for the foreseeable future. Due to high confidence in this peg by the Central Bank of Oman, the president has announced in February 2008 that Oman will not join the proposed GCC single currency in 2010. Significant amounts of foreign reserves and external accounts will fortify the currency in the face of liquidity pressures, especially with the current weakening state of the U.S. dollar.¹³⁸

By liberalizing its economy to join the WTO in 2000, as well as signing the U.S. FTA in 2006, Oman has procured a number of other measures to keep its intellectual property rights protection in-line with the rest of the world. The country has also joined WIPO. The threat of expropriation is low, although the judiciary is subject to political influence.

¹³⁶ “Country Profile: Oman.” *Economic Intelligence Unit*. www.eiu.com. p. 2.

¹³⁷ *Ibid.*, p. 9.

¹³⁸ *Ibid.*, p. 5.

Oman's regulatory environment, according to the government, can hamper investment and commercial activity. The process to license business activities and companies can be very time consuming, as the absence of a particular clearance will stall the entire procedure. The decision-making process in general is also encumbered by delays, as approvals are required from multiple ministries. Nevertheless, regulations have been issued to increase business potential, specifically in the financial markets. The Capital Markets Authority (CMA) has ordered all holding companies to disclose subsidiaries' information, as well as their own investments and financial statements. Also, the telecommunications sector was targeted as a focus point with the creation of the Telecommunications Regulatory Authority (TRA) in 2003. This body is designed to oversee the liberalization and privatization process of this sector.¹³⁹

Similar to many of its other GCC members, Oman does not levy personal, estate or gift taxes. New measures have been enacted as a response to recent trade agreements to simplify existing corporate tax laws, however, as the most important tax in the country is on business income. Corporations with a majority of their share capital located within the country and have 40% offered to the public are subject to reduced rates. Foreign companies that do not have a permanent establishment in Oman are subject to a withholding tax of 10% of gross income. No restrictions currently exist on payments and transfers for international transactions. Like many other GCC countries, foreigners are excluded from buying shares and participating in the local stock exchange.

A low level of political risk exists in Oman, because of the popularity of the Sultan, Qaboos bin Said al-Said, and the strength of security and social structures. Elections are held to determine the makeup of the legislature, or Majlis al-Shura, but this consultative council does not have much power within the country. Similar to Kuwait, a descendant or successor does not exist for the aging sultan, but internal negotiations have taken place and potential disputes have been minimized for the future. Future risks, if any, will probably lie in societal divisions between the well-off urban residents and the more rural conservatives, which could be brought to the forefront should al-Said's successor prove unable to address this disparity. Like other GCC members, Oman has a pro-Western outlook with numerous ties to the U.S. and the UK, especially in the face of popular pro-Iran and anti-Israel sentiments at home.¹⁴⁰

Historically, Oman has experienced low or even negative inflation. However, because of the weakening of the U.S. dollar and thus the rial against the country's chief import suppliers in Europe and the rise of oil prices, inflation has been on an upward trend, doubling to 5.9% in 2007. Higher inflation may continue in the future in the face of strong domestic demand, along with wage pressures, as the government has raised salaries and the minimum wage. The inflation rate is forecast at 7.2% in 2008 and 6.8% in 2009. Nevertheless, an extensive subsidy system is in place by the government to control prices on goods and services, which will keep future swings in inflation in check.¹⁴¹

¹³⁹ U.S. Commercial Service. U.S. Department of Commerce. "Doing Business in Oman: A Country Commercial Guide for U.S. Companies 2005". 2005, p. 37-38.

¹⁴⁰ "Country Profile: Oman." *Economic Intelligence Unit*. www.eiu.com. p. 3-4.

¹⁴¹ *Ibid*, p. 6.

Oman has also embarked on a recent infrastructure development program designed to upgrade and expand domestic capacity. IWPPs at Sohar and at Barka are currently in the works and are expected online by 2011. However, domestic gas supplies are a concern especially as the only LNG plant in the country is not planning to go through with expansion plans in the near future. As a result, these integrated water and power plants may be coal-fired, which will instigate criticism from environmental factions. Although significant transportation infrastructure exists with numerous seaports and two main airports, the government is investing OR 90 million into facility development, with the aim of raising tourist revenue from \$3.5 billion in 2004 to \$6.2 billion in 2015. Recently, a memorandum of understanding (MoU) was signed between Omani, Qatari and Kuwaiti investors and Evacorp Resources, a Malaysian automotive manufacturer, to construct the Gulf's first car assembly plant in northern Oman with an expected cost of \$150 million. The al-Omania al-Qatariya Assembly Plant will serve to create more jobs for citizens and produce what is expected to be the Gulf's own vehicle brand. It will be located near the main port of Sohar and will probably export its goods to other GCC countries, such as nearby Saudi Arabia.¹⁴²

Although Oman has a steady environment and does not have any major economic or political risks, major impediments exist for foreign investment and business within the country. Not only can foreigners not invest in financial markets, but the Origin Oman and Omanization campaigns have decreased the potential for future business, as managers will be incentivized to hire locals as opposed to drawing from a wider pool. Also, the long process in actually establishing a business is a huge impediment to potential investment. Thus, Oman has little opportunity for U.S. companies to conduct business, as numerous obstacles exist in procurement and investment.

Qatar

Qatar is currently experiencing an economic boom even in the face of a moratorium on further gas development and political issues with the Emir, Sheikh Hamad bin Khalifa al-Thani. The EIU estimates that GDP will grow at a rate of 11.7% in 2008 and 13.3% in 2009.¹⁴³ Inflation, however, has recently been high compared to the earlier part of the decade at 13.5% in 2007, but is forecasted to come under control at 8.2% in 2009. Inflation, however, may increase in the near term due to the weakening of the U.S. dollar as well as the inability of the government to cap rents; this will be mitigated by the large amount of property projects underway

Qatar joined the WTO in 1995 and has been engaged in trade negotiations between the U.S., the EU and Japan. No formal FTA has been established yet with any of these bodies, allowing the free flow of goods, services and investment between the two countries. A free trade zone is being assessed at the expansion of the Doha International Airport, slated to come online in 2009.¹⁴⁴

The Qatari labor force is estimated at 400,000, mostly foreigners, with a low unemployment rate of 2.7%. The oil and gas industry plays a huge role in employment, accounting for more than 55% of GDP, 85% of export earnings and 70% of government revenues.¹⁴⁵

¹⁴² Ibid, p. 12.

¹⁴³ "Country Profile: Qatar." *Economic Intelligence Unit*. www.eiu.com. p. 2.

¹⁴⁴ U.S. Chamber of Commerce. "Qatar Country Survey." Washington. 2006.

¹⁴⁵ Ibid.

No restrictions currently exist for protection against currency devaluation, even in the face of the weakening of the U.S. dollar. The Qatari currency, the riyal, is a floating rate pegged to the dollar. The devaluation has put pressure on imported price costs in Qatar, causing the Finance Minister and Acting Minister of Economy and Commerce, Youssef Hussein Kamal, to state the country will continue the peg until the establishment of the GCC currency union in 2010. However, as of late January, multiple government officials have stated publicly that a possible revaluation may take place or a re-pegging of the riyal to a basket of currencies, similar to Kuwait.¹⁴⁶

Qatar does not restrict foreign returns or fund transfers associated with investments. Foreign exchange is available at all times through banks and branches and exchange companies. Owners of property rights and intellectual property (IP) are dependent on Qatari rules and regulations, as the country is not a member of WIPO. However, as Qatar is a member of the WTO, it is subject to its laws and initiatives.

The government of Qatar is a major buyer and end-user of a wide range of products and services. Procurement regulations provide a 10% preference for Qatari bidders and 5% for GCC bidders. These are then processed by the Central Tenders Committee (CTC), a department of the Ministry of Finance. International firms are included in this process if the tender is valued above \$27 million. They must, however, have a local agent and provide bid and performance bonds. With respect to the private sector, regulatory policies do not significantly affect foreign investment decisions. Foreigners are generally not allowed to own property or invest in privatized public services; however, in 2004, a law was enacted allowing foreigners to own land in select areas and developments.¹⁴⁷

Qatar currently does not levy any personal or consumption taxes. The only corporations that are taxed are those that are based outside the country. The Income Tax Law of Qatar stipulates, however, that taxes are levied on commissions, asset sales, rents on IP, and consultation fees. However, in order to widen its revenue base and decrease its subsistence on oil, the Qatari government is planning on introducing a series of new taxes. These include municipal property taxes, hotel service taxes, and a corporation tax on local firms. As part of a region-wide initiative, Qatar is also planning to introduce a value added tax.

Similar to many other countries in the GCC, Qatar maintains close ties to the U.S., both politically and economically. Currently no parliament or legislature exists, although a two-thirds elected Majlis al-Shura (Consultative Council) was proposed in 2005, but never was put in place due to resistance from the ruling al-Thani, as well as threats from militant Islamist groups and aggression from Iran. The delay of this reform is unlikely to stir up any discontent, as the press and domestic political activity is restricted and most Qataris have been relatively apathetic about politics. However, the free Arabic news network Al-Jazeera is based in the country which provides unrestricted news all over the Middle East and North Africa. With respect to foreign policy, Qatar is in a bind due to its location near Iran as well as the heavy U.S. presence. The

¹⁴⁶ "Country Profile: Qatar." *Economic Intelligence Unit*. www.eiu.com. p. 11.

¹⁴⁷ U.S. Commercial Service. U.S. Department of Commerce. "Doing Business in Qatar: A Country Commercial Guide for U.S. Companies 2007". 2007, p. 50-51.

Emir, however, will probably side with the U.S. due to the security that it has been providing. The country has experienced an event of terrorism with the suicide bombing of the Doha Players Theater in 2005, but the act was reportedly on an individual basis and not done by a larger group.¹⁴⁸

Qatari economic growth will rely heavily on the hydrocarbons sector, which provide most of the fiscal and export earnings. This will increase in the future as new LNG plants, the development of an oil field, and petrochemical facilities come online. The government has also been spending on capital programs to provide education, health care and transport to promote economic growth. This is seen in the development of the Education City, which houses branches of global prestigious institutions such as Georgetown.

A large infrastructure development program is currently taking place for Qatar in all sectors of the economy, where the government is spending above \$130 billion in expenditure. In hydrocarbons, a multi-stage LNG plant known as Qatargas has been in a constant state of expansion, with a new “train” set to come online within the next few years. Power projects have also been undertaken, with multiple IWPP developments at Ras Laffan in the northern area of the country. In other sectors, a Science and Technology Park was established in 2004 to attract and serve engineering firms from around the world. An education city was constructed to house international colleges, and a sports city in Doha was built for the Pan-Asian games in 2006, which will also serve to support its current bid to host the 2016 Summer Olympics. The Qatar Financial Center (QFC) is a landmark financial services development to support long-term investment, economic growth and the domestic energy sector. Finally, the town of Lusail to be located on the Persian Gulf north of the capital is also under construction, with plans to house around 200,000 future inhabitants.

Qatar is currently undergoing massive expansions and infrastructure developments, and as such has recently opened up the country to business and investment opportunities. No major economic or political risks exist; and the only barriers to foreign investment are those policies that exist within the GCC region meant to favor local business development and employment. U.S. firms have invested in Qatar and should continue to do so with more frequency in the future.

Saudi Arabia

The kingdom of Saudi Arabia has experienced a recent economic boom, due to high oil prices and developments throughout the non-petroleum industries. Future growth will remain strong, driven by government spending, foreign investment and increases in oil output. Although sporadic militant attacks may take place throughout the country, no threat to the current power structure exists which is headed by the King, Abdullah bin Abdel-Aziz al-Saud. The GDP growth rate is forecasted to be 6% for 2008 and 6.5% for 2009. Inflation is expected to be moderate, with the EIU forecasting a rate of 7.5% in 2008 and 6.9% in 2009.¹⁴⁹ The kingdom also joined the WTO in 2005 after many years of negotiations.

¹⁴⁸ “Country Profile: Qatar.” *Economic Intelligence Unit*. www.eiu.com. p. 3-4.

¹⁴⁹ “Country Profile: Saudi Arabia.” *Economic Intelligence Unit*. www.eiu.com. p. 2.

Saudi Arabia employs a mostly non-national labor force, similar to that of the UAE. More than 35% of the workforce in 2004 across the services, industry and agricultural sectors were non-citizens. The government is seeking to attack the high level of unemployment, about 35%, among nationals by developing skilled sectors and diversifying away from a completely oil-based economy. A “Saudiization” program has been implemented by the government, which is imposing quotas limiting the proportion of expatriates a firm can hire. This, however, may not be effective, due to the high wage expectations and lower marketable skills base of Saudis.

Natural resources in the kingdom include petroleum, natural gas, iron ore, gold and copper. Agricultural products include wheat, barley, tomatoes, melons, dates, citrus, mutton, chickens, eggs and milk. In terms of hydrocarbons, Saudi Arabia is expected to gain a larger portion of the world oil production market, doubling oil output from 9 million barrels per day in 2007 to about 17.5 million barrels per day in 2030. This will increase the kingdom’s share from 11% to 15%, respectively.

The Saudi Arabian Monetary Agency (SAMA) has been very active in the macroeconomy, keeping a positive differential with U.S. interest rates, which reflects the high risk premium placed on a commodity-driven emerging market coupled with political risk. However, this differential cannot increase too much in the face of the weakening dollar, which may result in speculative pressures; this can be mitigated by selling riyal-denominated government bonds. SAMA is also actively enforcing the reverse repurchase (repo) rate, reducing it along with U.S. interest rate cuts, down to 3.5%. Its main repurchase rate has remained at 5.5%. Lending caps and reserve requirements are other tools that SAMA may use to control possible devaluations.¹⁵⁰

According to the IMF, residents may hold foreign exchange accounts, but approval must be sought for non-residents to engage in these transactions. Currently, no controls or restrictions on payments, remittances or transfers exist. Similar to some of the other GCC countries, only nationals may engage in portfolio investment in listed Saudi companies or buy securities.¹⁵¹

There are few aspects of the Saudi regulatory system that are transparent, according to the U.S. Department of Commerce. Laws and policies tend to favor high-tech transfers and the employment of Saudis, as seen through the Saudiization program. To encourage foreign direct investment in Saudi Arabia, the government established the Saudi Arabian General Investment Authority (SAGIA) in 2000. Not all sectors are open to investment, however, but some of these areas will gradually be opened in the future including the telecommunications, insurance and power transmission/distribution. Substantial barriers exist with respect to foreign investment, as nineteen sectors are on the “negative list” of areas that are off-limits. As well, restrictive visas for workers and enforced segregation of the sexes are disincentives to foreign investment.¹⁵²

Different tax systems exist for Saudis and non-nationals. Citizens and businesses, including those from other GCC countries, pay no income tax and must only contribute the Islamic *zakat* tax of 2.5% of net worth. Foreign-based businesses are subject to a corporation tax of a

¹⁵⁰ Ibid., p. 5.

¹⁵¹ U.S. Chamber of Commerce. “Saudi Arabia Country Survey.” Washington. 2006.

¹⁵² U.S. Commercial Service. U.S. Department of Commerce. “Doing Business in Saudi Arabia: A Country Commercial Guide for U.S. Companies 2004”. 2004, p. 8.

maximum of 20%, except for the hydrocarbons sector where taxes are set between 30 and 85%. Joint ventures are also taxed on the non-Saudi side of the profits.

King Abdullah will likely remain cautious in political and economic reforms to keep the consensus between the royal family and the religious establishment, which has criticized him with regards to corruption and close ties to the U.S. Currently, the judicial system is being overhauled to establish a new supreme court, as well as specialist courts for commercial, labor and family law. Qualifications in *shariah*, or Islamic law, will still remain a necessary factor for this system. Political risk still exists in the Kingdom due to sporadic militant attacks by groups aiming to destabilize the regime and discourage the presence of non-Muslims; however, these attacks have been on the decline since 2004. Conflict has existed between the Shia minority in the Eastern Provinces and the Sunni majority that inhabits the rest of the Kingdom. In foreign affairs, the existing relationship between the U.S. and Saudi Arabia will remain strong even in the face of a new American president at the end of 2008.¹⁵³

Persistently strong domestic demand, coupled with rising rents and higher prices for most commodities has increased inflation forecasts to 7.5% in 2008. Government subsidies will mitigate the impact of price increases through programs that have wages and pensions increasing by an average of 5% per year for three years and social insurance benefits rising by 10%. This package also calls for the start of a national housing authority, designed to promote the construction of low-cost homes and expediting the process for a mortgage finance law. Average private sector wage growth will be kept in check by the large influx of foreign workers, but salaries in the skilled sectors are likely to increase due to intense competition for staff.

Similar to the UAE, Saudi Arabia is seeking to diversify its oil-driven economy through a \$624 billion investment program through 2020 in infrastructure and other industries, while at the same time, maintaining traditional Islamic values and customs. High population growth has also provided a stimulus for an aggressive IWPP program, with ten projects either being planned or under construction throughout the Kingdom to be completed by 2016 at a total cost of nearly \$16 billion. Another program that is currently underway is the construction of five “economic cities” that will provide jobs and productivity in multiple sectors. The first one, King Abdullah Economic City, situated north of Jeddah is slated to be completed by the end of 2008 and aims to host 2,500 industrialists and manufacturers, a port with a capacity for 10 million 20 foot containers, and resorts with golf courses, villas and spas. The next three, to be located near Medina, Jizah and Hail will commence construction in 2008. This program will require \$170 billion in infrastructure and \$200 billion in industry investment over the next twelve years. These cities will be financed by public-private partnerships, led by Emaar Properties, a key Dubai-based development group. Finally, two industrial cities at Jubail and Yanbu have also been completed, aiming to develop the Kingdom’s petrochemical, fertilizer, and refined products.¹⁵⁴

¹⁵³ “Country Profile: Saudi Arabia.” *Economic Intelligence Unit*. www.eiu.com. p. 3-4.

¹⁵⁴ England, Andrew. “Averting Post-Boom Stagnation”. *Financial Times Special Report* (December 4, 2007), <http://www.ft.com>

Of all the GCC countries, Saudi Arabia is the most religiously focused country and as such provides numerous obstacles and disincentives for foreign investment, especially from the U.S. However, strong oil reserves and burgeoning infrastructure development have attracted numerous companies to the Kingdom. Little economic risk exists, although the stringent religious environment imposed by the Saudi government can create some political risks. Overall, despite these impediments, Saudi Arabia should still be regarded as a main focus point for U.S. business relationships, not only in the GCC, but also in the Middle East as a whole.

United Arab Emirates (UAE)

The UAE, a federation made up of seven separate emirates, employs a very stable political and economic environment, with the current ruler of the Abu Dhabi emirate and president of the entire country, Sheikh Khalifa bin Zayed al-Nahyan, enjoying support from the other rulers. Currently, a massive program of economic and infrastructure reform is taking place across the country, seeking diversification away from oil and other hydrocarbon based products. The GDP growth rate reflects this, forecasted at 8.9% for 2008 and 8.2% in 2009. Inflation is forecasted to be high, not only due to external pressures from the weakening U.S. dollar, but also from rising oil and infrastructure prices. The EIU is assessing this rate to be at 10.8% for 2008-09.¹⁵⁵

The UAE is among one of the most industrialized and developed countries in the world. The federation is also a member of the WTO. Diversification has been a key driver for the UAE economy, as decreasing oil reserves in some of the emirates, notably Dubai, has resulted in a move away from energy as a source of revenue. Dubai has thus developed into a center for finance, commerce, transportation and tourism, not only for the UAE, but for the Middle East as a whole. The Jebel Ali complex in this emirate, which comprises more than 200 factories and a deep-water port, is a designated free trade zone where all goods for re-export or transshipment have a 100% duty-free exemption. As well, a Dubai International Finance Center has been planned, which includes 55.5% foreign ownership allowances, no withholding tax, freehold land, office space, and a tailor-made financial regulatory system designed to attract high-end international finance and tourism. Internet and media free zones exist here too, offering 100% foreign ownership. Abu Dhabi, the wealthiest emirate, is currently implementing a privatization program for several utilities and is seeking foreign investment in the power and water sectors. Other emirates have been following suit and are planning to implement development programs in the near future.

Currently, oil and petroleum-related products remain as the dominant majority of the raw materials produced by the UAE, accounting for 30% of GDP. The country also produces agricultural products such as dates, vegetables, watermelons, poultry, eggs, dairy products and fish. As of 2006, the UAE counted a labor force of about 3 million, mostly employed in the services sector (78%).¹⁵⁶ The unemployment rate for non-nationals is virtually zero, as most of the foreigners in the country are there for the sole purpose of work and fuelling the development program. However, employment among Emiratis stands at around 15%, which is being addressed by the government, but gradually so as to continue the current trend of fast-paced growth in infrastructure development. Overall unemployment is the lowest in the region at 2.4%. The construction sector has been recently targeted by human rights activists for harsh

¹⁵⁵ "Country Profile: UAE." *Economic Intelligence Unit*. www.eiu.com. p. 2.

¹⁵⁶ U.S. Chamber of Commerce. "UAE Country Survey." Washington. 2006.

working and living conditions coupled with a low-wage atmosphere. Measures have been implemented and a summit was held in January 2008 to address these issues, but the country does not have enough inspectors to enforce the new measures, with the approximately 1 million manual laborers, many of whom do not speak English or Arabic. In the face of strikes in late 2007, a regulation was imposed in early 2008 forcing contractors to provide health insurance and electronic banking accounts and to allow the government to monitor salaries. These strikes were caused by the withholding of salaries and the dwindling value of remittances in the face of the weakening dirham.

The Central Bank of the UAE has very limited tools to protect from possible currency devaluations with the peg with the weakening U.S. dollar and few debt instruments. In late November 2007, however, a new system of setting interest rates was implemented to help local capital markets and the government yield curve. An overnight repurchase (repo) rate has been enacted to act as the benchmark interest rate and was initially set at 4.75%, but then reduced to the current position of 3% after numerous U.S. interest rate cuts. This lower rate may further exacerbate the already strong inflationary pressures on the economy and has failed to stem purchases on the dirham, caused by expectations of a revaluation. The EIU forecasted that a possible change to the exchange-rate regime may take place in 2008-09 as a result of the currency pressures, either a change to a trade-weighted currency basket, such as Kuwait, or a straightforward revaluation of the dirham.¹⁵⁷

No restrictions on dividends, interests, royalties and technical assistant payments exist with the currency connection between the dirham and the U.S. dollar. The UAE has also joined WIPO. As well, the established rules are being revised to comply with Trade-Related Intellectual Property Rights (TRIPs) standards, implemented in January 2000.

The UAE, as a historical trade nexus, employs extremely liberal trade and business policies, as few restrictions exist on imports and there are currently no foreign exchange controls. However, as standard practice within the GCC, business establishments require 51% ownership by a UAE national, except for those located within the free trade zones. Unlike other countries in the region, though, establishing a business is easy, as long as it does not compete with state-owned enterprises. This measure has helped to promote high growth and development within the country.¹⁵⁸

No income, personal, corporate or any other significant taxes exist in the UAE. Income taxes for foreign banks and oil companies have been enacted by each emirate, ranging from 20% for foreign banks to 50-55% for oil companies.

No significant political risk exists within the country, at least for the near future. The ruling families of each emirate all enjoy support from each other, as well as from the populace. Unlike possible issues of succession from other GCC countries, many of the rulers have already or will handpick successors to their positions. The first election was held in late December 2006 in the country to pick half of the members of the 40 person Federal National Council (FNC), an advisory body to the Supreme Council of Rulers. There has been some talk of extending the

¹⁵⁷ "Country Profile: UAE." *Economic Intelligence Unit*. www.eiu.com. p. 5.

¹⁵⁸ U.S. Chamber of Commerce. "UAE Country Survey." Washington. 2006.

FNC's powers, but so far the rulers' policy of wealth redistribution has satisfied most of the UAE nationals. In foreign affairs, like other GCC members, the UAE has sought dialogue between itself and Iran, especially with its strong ties to the U.S. and its role as the region's service hub.¹⁵⁹

The surge of domestic demand has increased inflationary pressures in the UAE, due to rising prices in the real estate and service sectors. The government has enacted a 70% wage increase for citizens who work in the public sector to offset the impact of high domestic inflation. Inflation may increase from this measure, as further wage demands from the private sector labor force will come to the forefront. Diversification from a primarily oil-based economy has resulted in strong economic growth and development and fortified the country against external shocks.¹⁶⁰

As a result of the strong economic growth and a 7.5% per annum population growth rate, the UAE is experiencing a severe scarcity of electricity and water. IWPPs have been under construction throughout the country to satiate these needs, with five current and future sites contributing to the country's grid. The Abu Dhabi emirate has also taken another approach through renewable energy, announcing a \$15 billion investment into the construction of the world's first "zero-carbon city" of Masdar, as well as a 100 MW solar power plant. The move to economic diversification has also caused a \$7.9 billion investment into the manufacturing industry across the country, aiming at increasing the production of food, beverages, tobacco, chemicals, metals, weapons, paper and textiles. The Dubai emirate has experienced a major boom in the construction and real estate sectors, with several developments such as the Palm Islands, the World (another series of islands), Dubai Marina, Lake Towers, and a large international airport. Airports are also located in five of the other six emirates, making the UAE one of the busiest aviation hubs, due to its strategic location between Europe and Asia.

The UAE is one of the best countries within the region for U.S. investment and business relationships. Very few risks impede commerce and economic growth and the free trade zones provide numerous methods for foreign firms to expand their opportunities.

GCC Investment in the U.S.

The U.S.-GCC economic relationship is extremely strong due to the numerous transactions that have been going forth between the two areas. This is an increasing trend, as the amount of money invested by the Middle East into the United States has doubled from 2001 and 2006 and will probably continue into the future. This relationship was called into question in 2005 with the proposed DP World management of six major seaports. The American public was extremely skeptical of any ownership by a Middle East firm after the September 11th attacks and the misconceived connection between all Arabs and terrorists. As such, the roles of foreign investment regulatory bodies such as the Committee on Foreign Investment in the United States (CFIUS) and the Foreign Investment and National Security Act (FINSIA), measures enacted to police foreign businesses acquiring U.S. company assets, were brought to the forefront. These bodies were meant to enforce national security behind the U.S.'s open investment policy.

¹⁵⁹ "Country Profile: UAE." *Economic Intelligence Unit*. www.eiu.com. p. 3-4.

¹⁶⁰ Ibid, p. 6.

On the other hand, in support of foreign businesses investing in the U.S., only one measure has been enacted at the federal level. In 2007, the “Invest in America” initiative was created by the President and is run by the Department of Commerce’s International Trade Administration to attract foreign direct investment and to create a more attractive investor climate. It focuses on outreach to the international investment community, coordination with state governments engaged in foreign investment promotion, and working with policymakers to address business climate concerns. A guide has also been created as part of this measure to provide all potential investors with a contact list of economic developers in all fifty states, the territories, and the District of Columbia who have been designated by each respective governor to field international investment inquiries. Its relationship with policymakers is such that it acts as a voice within the federal bureaucracy to ensure that the United States remains the premier location for foreign direct investment.¹⁶¹

These policies are especially acute with today’s business climate: the falling value of the U.S. dollar and heightened uncertainty with the credit crisis stimulated by the sub-prime mortgage fallout. Many risks have thus arisen that may stymie future foreign investment with the U.S. In order to continue investment in the U.S. by the GCC, the government must promote such measures as the Invest for America initiative and push for foreign investors to establish relationships with U.S. firms.

MOVING THE U.S.-GCC RELATIONSHIP FORWARD

The current trade and investment activities between the U.S. and the GCC countries highlight a dynamic and prosperous relationship, and possibilities for moving the relationship forward abound. However, there is room for further dialogue and the deepening of cross-cultural understandings. If true growth and development is to occur within the U.S.-GCC relationship, it will need support on economic, commercial, and political fronts, as well as cooperation between the public, private, and third sectors.

Selected Areas of Opportunity

As the “Invest in America” initiative illustrates, the U.S. is continuing to work toward attracting FDI into the U.S. (in part to finance its current account deficit), as well as seeking to find avenues for U.S. investment in emerging markets. The current trend in the GCC countries is to work towards the diversification of their economies away from the oil and petroleum industry. Currently, many GCC countries can be described as “petroleum dependent,” where a large percentage of total GDP comes from this industry. As such, GCC member countries individually are engaging in active investment promotion, by highlighting key growth sectors and reforming the legal and regulatory environments to allow for foreign ownership and investment. With the understanding that the oil and petroleum industry in the GCC countries plays a dominant role, diversification away from dependence on this industry has led to growth trends across the region in several other sectors including: financial services, tourism, natural gas, and construction among others.

¹⁶¹ Invest in America website, <http://www.investamerica.gov>, Retrieved April 13, 2008.

Bahrain

With little oil revenues of its own, and while watching oil prices skyrocket in the early 1970s, Bahrain liberalized its banking laws in 1975 in an effort to attract regional wealth and become an international financial center (IFC). Now, financial services are the biggest single contributor to GDP, accounting for approximately 25.5% in 2006¹⁶² and include: offshore banking services, Islamic finance, and insurance activities. The Central Bank of Bahrain has worked diligently to build a good reputation as an effective banking regulator and work continues on the Bahrain Financial Harbor (BFH), a major new real estate development targeted mainly towards financial-sector firms. Specific industries of note for growing investment in Bahrain include financial services, tourism, information technology and telecomm, and trade services. In addition, the Bahrain Stock Exchange (BSE) was established in 1987 by Amiri Decree No. 4 and officially commenced operations on June 17, 1989 with twenty-nine listed companies. Currently, there are nearly 50 companies listed on the exchange.¹⁶³

The BSE operates as an autonomous institution supervised by an independent Board of Directors, chaired by the Governor of the Central Bank of Bahrain. There are five markets supported by the BSE trading system: the IPOs Market (the market in which shares of a company are traded for the first time following its listing on the exchange); the Regular Market; the Special Orders Market (Min. BD 500,000); the Mutual Funds Market; and the Bonds Market; and there are three indices that track the BSE: the Bahrain All Share Index, the Dow Jones Bahrain Index and the Estirad Index. Currently, foreigners can purchase, own or sell bonds, units of mutual funds, and warrants of domestic joint-stock companies. Foreigners who reside in Bahrain for one year or more are entitled to purchase, own, and/or trade up to 49% of a domestic joint-stock company's equities. However, an individual foreigner may not own more than 1% of a company's issued capital. There are ten companies that are completely open to foreign investors: Arab Banking Corporation (ABC), Arab Insurance Group (ARIG), Ahli United Bank (AUB), Al Baraka Banking Group (BARKA), Bahrain Middle East Bank (BMB), Ithmaar Bank (ITHMR), Investcorp Bank (INVCORP), Bahrain Shamil Bank (SHAMIL), Al Salam Bank (SALAM), and TAIB Bank (TAIB). Foreign security holders are legally entitled to enjoy all the benefits of the ownership of securities of domestic joint-stock companies. They have voting rights on all matters submitted for approval and receive dividends and other distributions without being subject to taxation.¹⁶⁴

Kuwait

The Kuwaiti government has a 20-year tourism development strategy, making this an attractive sector for investment growth. The Kuwaiti media is noted as being relatively free and open to debate, leading to potential opportunities in academia, media affairs, or other creative fields. The Kuwait Stock Exchange (KSE) is the national stock market. Although several share holding companies existed in Kuwait prior to the creation of the KSE, it was not until October 1962 that a law was passed to organize the country's stock market. The Kuwait Stock Exchange is also among the first and largest stock exchanges in the Gulf region, and is now gaining prominence as one of the most potentially important in the world. The opening of the Kuwaiti Ladies Trading

¹⁶² "Country Profile 2007: Bahrain," *Economic Intelligence Unit*, 2007

¹⁶³ GulfBase.com <http://www.gulfbase.com/site/interface/MarketWatch.aspx?m=5>

¹⁶⁴ Bahrain Stock Exchange <http://www.bahrainstock.com/bahrainstock/index.asp>

Hall in January 2003 is considered a distinguished experience that no other Stock Exchange has accomplished. It was opened with the aim of creating an adequate environment for business women to trade their investments.¹⁶⁵ The KSE has just over 200 companies listed, including nine banks, 43 investment companies, and 16 non-Kuwaiti firms.¹⁶⁶

Oman

As part of its five-year plan for 2006-2010, the government of Oman has targeted overall the goal of annual real growth of 7.5% in non-oil activities. Specific sectors targeted include: tourism, industry, and fisheries. The country's stock exchange, the Muscat Securities Market (MSM), lists 153 companies, 7 government bonds, 7 commercial bonds, and 6 mutual funds. The MSM highlights several incentives for foreign investment in the Omani Capital Market. These include: no tax on capitalist returns or profits; no restrictions on capital and profit transfers; no restrictions on exchange processes; the convertibility of the Omani Rial and a fixed exchange rate with US\$; foreign investors can invest in the shares of listed companies or investment funds without prior permission; and there is an independent regulatory and supervisory authority organizing, monitoring, and supervising the Muscat Securities Market to ensure the protection of investors. The MSM also highlights several specific advantages of investment in the Sultanate of Oman. These include efforts to create the right climate for new investments by developing a free, competitive economy with equal opportunities for all, and shaping laws and regulations that encourage enterprise such as: a free economy system; political and economic stability; up to 100% foreign ownership; no restriction on capital and profit transfers; no personal income tax; the provision of soft loans with low interest rates and easy payback periods; corporate tax holidays of up to 10 years; export credit insurance through the Export Guarantee and Financing Agency; and the provision of a special law for foreign investment to protect the foreign investor's rights.¹⁶⁷

Qatar

Foreign investors are allowed according to the Qatari investment laws to invest in all national economy sectors provided that they have a Qatari partner who has a share of at least 51% of the capital of the joint venture and that the company is duly established in accordance with the provisions of the law of commercial companies. According to a decision by the Minister, the shareholding of foreign investors in joint ventures can surpass the limit of 49% and reach up to 100% of the capital in selected sectors, such as agriculture, industry, health, education, tourism, development of natural resources or energy and mining, on condition that the projects in question are in line with the country's development objectives. These objectives are: to give priority to optimizing the utilization of and add value to local raw materials and local products; focus on export oriented projects; introduce new products; use new technologies; seek to introduce industries with international fame; or develop the national human resources.¹⁶⁸

Qatar has what's considered to be one of the most active stock markets in the Middle East, the Doha Securities Market, with a market capitalization of approximately \$95 billion¹⁶⁹ and 48

¹⁶⁵ Kuwait Stock Exchange <http://www.kuwaitse.com/PORTAL/KSE/About.aspx>

¹⁶⁶ Ibid.

¹⁶⁷ Muskat Securities Market <http://www.msm.gov.om/pages/default.aspx?c=151>

¹⁶⁸ Qatar Ministry of Foreign Affairs <http://english.mofa.gov.qa/>

¹⁶⁹ Country Profile 2007 – Qatar, Economist Intelligence Unit, www.eiu.com

companies traded, including 9 banks, 5 insurance, and 21 services companies.¹⁷⁰ It should be noted, however, that foreign investors are not allowed to invest in the fields of banking, insurance, commercial representation and real estate purchase. Other sectors available for foreign investment in Qatar include agriculture, technology, tourism, education, and health care.

Saudi Arabia

The Saudi Stock Exchange, or Tadawul, lists just less than 200 companies, including 10 banks and financial services companies, 12 petrochemical industries, and 7 real estate development firms, among others. Saudi Arabia has not yet fully opened its stock market to foreigners, although investors expect that to change. However, non-Saudi residents may trade investment portfolios on the Tadawul provided they have a legally valid residence permit and a bank account with a Saudi local bank. Nevertheless, foreign investment is still restricted for those items on the Saudi “negative list.” Saudi Arabia, is however, courting international capital to help finance six new “economic cities,” built around industries such as oil refining, shipping, steel, petrochemicals, and information technology. Saudi Arabia is also developing Islamic tourism centered in Mecca and Medina.¹⁷¹ According to the Saudi Arabia General Investment Authority (SAGIA), other sectors with investment opportunities include education, energy, health, ICT, life sciences, and transportation.

UAE

The UAE plays host to two International Financial Centers in Abu Dhabi and Dubai. These emirates have become attractive to foreign investors over the years, as Dubai reduced corporate taxes to zero in the early 1990s and Dubai and Abu Dhabi eased restrictions on foreign ownership of land. Dubai is competitive in Islamic/Sharia-compliant finance and the two emirates boast three formal stock exchanges: the Abu Dhabi Securities Market (ADSM), the Dubai Financial Market (DFM), and the Dubai International Financial Exchange (DIFX). Foreign investment is somewhat restricted on the DFM and ADSM, while the DIFX aims to be a regional (and ultimately, international) stock exchange for companies from across the Middle East, South Asia and Africa. DIFX launched its first Islamic bond issuance in October 2006, and the Dubai International Financial Center (DIFC) – a self regulating financial free-zone – hopes to attract leading international banks. Although oil and gas production will remain the backbone of the UAE economy for years to come, the non-oil sector of the economy is growing at a rapid pace. Major growth areas include: aircraft & parts; security and safety equipment; IT equipment and services; medical equipment, services and supplies; architecture, construction, and engineering services; building products; air conditioning and refrigeration equipment; environmental and pollution control equipment; and sporting goods and equipment. Water and power projects continue to offer considerable opportunity due to the UAE’s unquenchable thirst for water and electricity.¹⁷²

With the growing number of opportunities in the GCC member countries, potential investors should note that the pro-business climate is still developing in the region. According to the Arab World Competitiveness Report 2007 released by the World Economic Forum, United Arab Emirates is the most competitive economy in the Arab world. It is followed by Qatar and

¹⁷⁰ Gulf Base.com <http://www.gulfbase.com/site/interface/companylist.aspx?m=7>

¹⁷¹ Ibid.

¹⁷² *Country Commercial Guide, UAE* http://www.buyusainfo.net/adsearch.cfm?search_type=int&loadnav=no

Kuwait.¹⁷³ As part of the World Economic Forum’s Executive Opinion Survey 2006, over 11,000 business leaders were polled in 131 countries in an effort to gauge the ease of doing business. Respondents were asked to rank-order the factors seen as most problematic for doing business in their country/economy. The table below summarizes these responses for the GCC member countries.

Ease of Doing Business Factors (1 = least problematic; 14 = most problematic)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Access to financing	7	6	6	2	6	6
Corruption	8	4	9	10	3	9
Crime and theft	10	12	14	12	10	12
Foreign currency regulations	14	10	12	9	12	10
Government instability/coups	12	13	13	11	13	11
Inadequate supply of infrastructure	6	7	5	1	1	7
Inadequately educated workforce	3	3	1	3	8	2
Inefficient government bureaucracy	4	1	2	5	2	5
Inflation	9	9	11	6	14	4
Policy instability	5	8	10	8	4	8
Poor work ethic in national labor force	2	5	3	7	7	3
Restrictive labor regulations	1	2	4	4	11	1
Tax rates	13	14	8	13	9	14
Tax regulations	11	11	7	14	5	13

Source: World Economic Forum, *Global Competitiveness Report 2007-2008, Country Profiles*

The GCC region has seen significant progress in a number of areas and member countries are taking appropriate steps to improve their competitiveness, however, when developing an understanding of local markets, potential investors should take into consideration any factors which may impede investment. While this should by no means hinder further development of the U.S.-GCC relationship, it is important to note that market conditions are still nascent.

USA

It is the policy of the U.S. to promote international investment in U.S., while protecting national security. This policy is based on the premise that international investment promotes economic growth, productivity, competitiveness, and job creation. An example of this policy in practice is the provision of a tax exemption — there is currently no tax imposed on “passive income” accruing to foreign governments from investments in the U.S.¹⁷⁴ Sectors of interest in the U.S. may include: commercial real estate; financial and other services such as consulting; higher education; and others. The U.S. Stock Exchanges provide an important mechanism for investment in U.S. companies, treasury bonds, mutual funds, and the like.

The U.S. hosts some of the longest-running and sophisticated exchanges in the world. Among them are: the American Stock Exchange (AMEX), Boston Stock Exchange (BSE), Chicago

¹⁷³ Global Competitiveness Report 2007-2008, Country Profile — Bahrain. *World Economic Forum*, Retrieved from <http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>

¹⁷⁴ Thomas Jr., Landon. “To Court or Shun the Wealth of Nations,” *New York Times*, April 2, 2008

Stock Exchange (CHX), HedgeStreet, NASDAQ, the National Stock Exchange (NSX), New York Board of Trade (NYBOT), New York Stock Exchange (NYSE), NYSE Arca, and the Philadelphia Stock Exchange (PHLX). Some of these exchanges have been in operation since the 18th Century.

Sectors of interest and Stock Exchanges by Country

Country	Growth Sectors	Stock Exchange
Bahrain	Financial Services, Tourism, IT & Telecomm, Trade Services	Bahrain Stock Exchange (BSE)
Kuwait	Tourism, Media	Kuwait Stock Exchange (KSE)
Oman	Tourism, Industry, Fisheries	Muskat Securities Market
Qatar	Agriculture, Technology, Tourism, Education, Health Care	Doha Securities Market
Saudi Arabia	Education, Energy, Health, ICT, Life Sciences, Transportation	Saudi Stock Exchange (Tadawul)
United Arab Emirates	Financial Services	Dubai Financial Market (DFM), Dubai International Financial Exchange (DFIX), Abu Dhabi Securities Market (ADSM)
USA	Commercial Real Estate, Financial and Other Services	American Stock Exchange (AMEX), Boston Stock Exchange (BSE), Chicago Stock Exchange (CHX), HedgeStreet, NASDAQ, the National Stock Exchange (NSX), New York Board of Trade (NYBOT), New York Stock Exchange (NYSE), NYSE Arca, and the Philadelphia Stock Exchange (PHLX)

Source: EIU Country Profiles and National Investment Promotion Authorities

While investment opportunities abound, generally speaking, some restrictions on foreign investment do exist. For example, in Qatar, foreign investment is not allowed in fields of banking, insurance, commercial representation, and real estate purchase. Saudi Arabia publishes its “negative list” — a list of sectors in which foreign investment is prohibited. In Saudi Arabia, foreign investment is not allowed in the sectors of oil & gas prospecting, military items, explosives, security and detective services, real estate investment and tourism in Mecca and Medina, some telecommunications and transport, and various medical services, among others.¹⁷⁵ Furthermore, while FDI is generally allowed and encouraged in the U.S., CFIUS and the failed Dubai Ports (“DP World”) deal highlight difficulties with cross-cultural perceptions, disclosure & transparency in international investment.

¹⁷⁵ For a complete list of disallowed sectors for foreign investment, see the SAGIA at www.sagia.gov.sa

The Role of Sovereign Wealth Funds (SWFs)

One way to channel investment on a large scale is through the use of Sovereign Wealth Funds (SWFs). A sovereign wealth fund is a state-owned fund composed of financial assets such as stocks, bonds, property or other financial instruments. The funding for a Sovereign Wealth Fund (SWF) comes from central bank reserves that accumulate as a result of budget and trade surpluses, and also from revenue generated by the exportation of natural resources. Sovereign funds have existed at least since the 1950s, yet their total size world-wide has increased dramatically over the past 10–15 years. It is thought that in 1990, sovereign funds probably held, at most, \$500 billion. However, the amount of SWF assets under management as of February 2008 was estimated at around \$3.2 trillion in 47 SWFs world-wide. Based on the likely trajectory of current accounts, this amount could reach \$10 trillion by 2012.¹⁷⁶ Currently, more than 20 countries have these funds, and half a dozen more have expressed an interest in establishing one. Still, the holdings remain quite concentrated, with the top five funds accounting for about 70% of total assets. According to the New York Times, Kuwait, Qatar, Saudi Arabia, and the UAE (with China and Libya) have 7 of the 10 largest SWFs worldwide.¹⁷⁷

Large SWFs in the GCC

Country	Fund Name	Assets Under Mgmt (USD billions)	Source
UAE	Abu Dhabi Investment Authority (ADIA)	900	Oil
Saudi Arabia	Various Funds	300	Oil
Kuwait	Kuwait Investment Authority (KIA)	250	Oil
Qatar	Qatar Investment Authority (QIA)	60	Oil
Oman	State General Stabilization Fund (SGSF)	8.2	Oil, gas
UAE	Dubai International Financial Centre Investments (DIFC)	NA	Oil
<i>Planned future SWF projects:</i>			
UAE	Emirates Investment Authority	NA	Oil
Saudi Arabia	Est. 2008	900	Oil

Source: Deutsche Bank Research, Steffen Kem, 20 February 2008

As illustrated in the table above, the major source of SWF capital is the petroleum industry, an abundant resource in the GCC region. The Kuwait Investment Authority (KIA) is one example of an SWF that manages around \$250 billion in assets which come mainly from oil revenues. Interestingly, according to a 1976 law, the Kuwaiti Government is legally obliged to place at least 10% of its revenue into the “Reserve Fund for Future Generations,” which is managed by the KIA and aims to compensate for the finite nature of oil reserves and the country’s limited scope for economic diversification. Thus, the Reserve Fund functions as an investment vehicle.

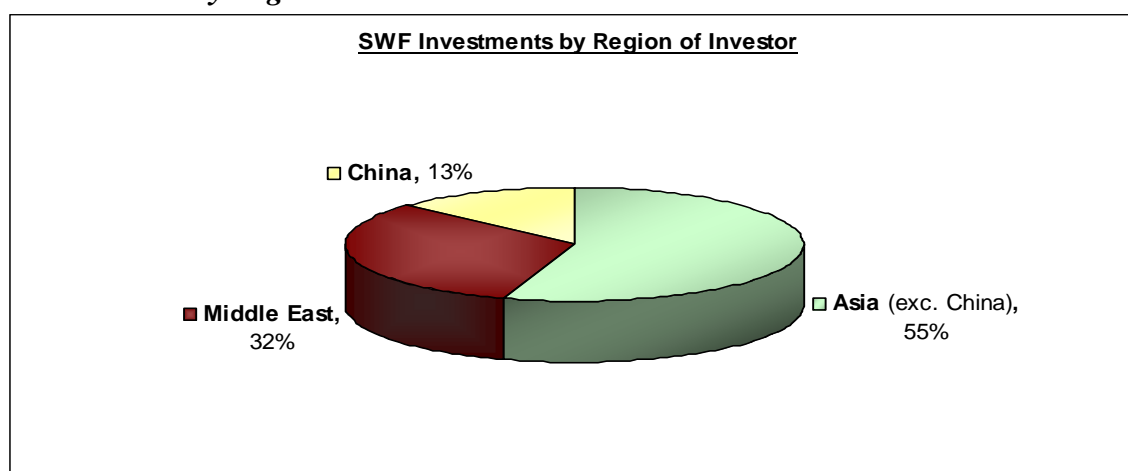
These vehicles present a useful tool for the investment of massive oil wealth or “petrodollars,” but perhaps more importantly, they also provide a major source of liquidity for international

¹⁷⁶ Johnson, Simon. “The Rise of Sovereign Wealth Funds,” *The International Monetary Fund, Finance & Development*, Straight Talk, September 2007, Volume 44, Number 3 Retrieved April 13, 2008 from <http://www.imf.org/external/pubs/ft/fandd/2007/09/straight.htm>

¹⁷⁷ Thomas Jr., Landon. “To Court or Shun the Wealth of Nations,” *New York Times*, April 2, 2008.

markets. Since November 2007, as the credit crunch continued to frustrate markets, global banks have reported losses of \$193 billion, according to the International Monetary Fund in its latest report on global financial stability. At the same time, \$105 billion in new capital has been injected into troubled financial institutions. Sovereign wealth funds have been responsible for about \$41 billion of that new capital and they have been major players in most of the refinancings.¹⁷⁸

SWF Investments by Region

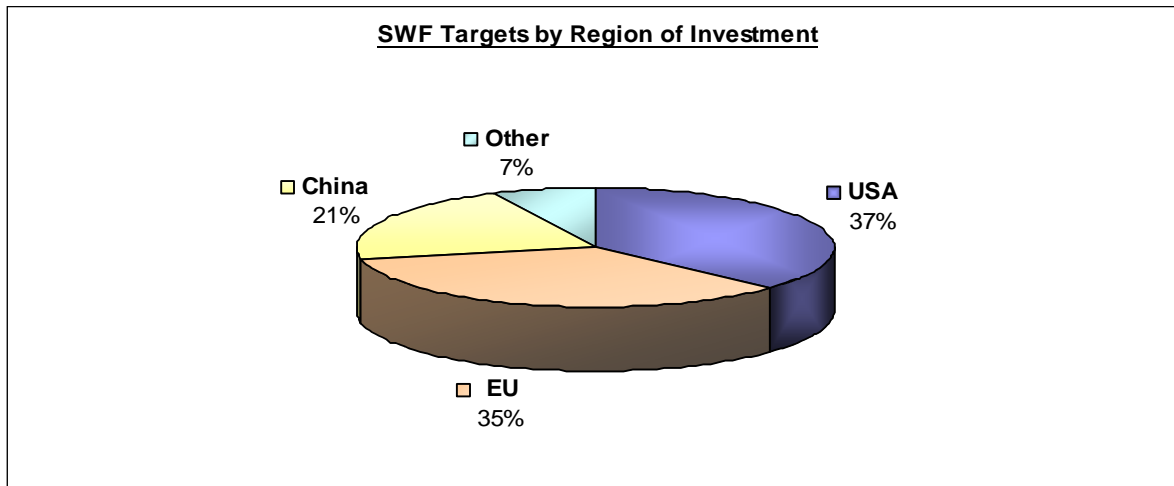


Source: Deutsche Bank Research, Steffen Kem, 20 February 2008

Altogether, SWFs invested \$28 billion in 2007, and \$16 billion from January to April 2008.¹⁷⁹ Thirty-two percent of global SWF investment is said to be sourced from the Middle East, representing a whopping \$1.024 trillion. The U.S. is the largest destination for SWF investment, with 37% of total SWF investment flows. Recent noteworthy transactions include a \$7.9 billion investment by the Abu Dhabi Investment Authority (ADIA) for a 4.9% stake in Citigroup in November 2007 — during the early days of the sub-prime crisis as liquidity began to dry up — and a \$5 billion investment by the Kuwait Investment Authority (KIA) in Citigroup and Merrill Lynch.

¹⁷⁸ Scoffield, Heather. “Should we fear sovereign wealth funds?” *Report on Business.com*, April 12, 2008, Retrieved from <http://www.theglobeandmail.com/servlet/story/LAC.20080412.MKECOLAB12/TPStory/Business>

¹⁷⁹ Thomas Jr., Landon. “To Court or Shun the Wealth of Nations,” *New York Times*, April 2, 2008



Source: Deutsche Bank Research, Steffen Kem, 20 February 2008

Some concern has been expressed that the SWFs invest for the economic and strategic welfare of their own countries, rather than necessarily for profit maximization. Moreover, some fear that countries with ulterior motives could be amassing important assets around the world, taking advantage of underlying weaknesses in selected economies. Many believe that those fears could be put to rest if the funds would be more transparent and rigorous about their investment practices and motivations.¹⁸⁰ Unfortunately, many things remain unknown about sovereign funds. Very few SWFs publish information about their assets, liabilities, or investment strategies. It's thought that they have traditionally been "long only": that is, they pursue buy-and-hold strategies, with no short positions and perhaps no borrowing or direct lending of any kind. They probably have long horizons and, like other long-term investors, are willing to step in when asset prices fall. This practice likely exerts a stabilizing influence on the world's financial system. In order to progress with a constructive discussion on the issues surrounding SWF investment, it must be determined what information countries are willing to share, what information it makes sense to ask for, and what information can be used in our global economic and financial analysis. There is no apparent reason to see the continued existence of these funds as destabilizing or worrying. In fact, the IMF has strongly encouraged exporters of nonrenewable resources to build up exactly such funds in preparation for a "rainy day."¹⁸¹

The U.S. and UAE, along with Singapore support the processes underway within the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) to develop voluntary best practices for SWFs and inward investment regimes for government-controlled investment in recipient countries, respectively. As such, these countries have agreed on a set of policy principles for SWFs and for countries receiving SWF investment. These principles include the following beliefs:

- SWF investment decisions should be based solely on commercial grounds, rather than to advance, directly or indirectly, the geopolitical goals of the controlling

¹⁸⁰ Scoffield, Heather. "Should we fear sovereign wealth funds?" *Report on Business.com*, April 12, 2008, Retrieved from <http://www.theglobeandmail.com/servlet/story/LAC.20080412.MKECOLAB12/TPStory/Business>

¹⁸¹ Johnson, Simon. "The Rise of Sovereign Wealth Funds," *The International Monetary Fund, Finance & Development*, Straight Talk, September 2007, Volume 44, Number 3 Retrieved April 13, 2008 from <http://www.imf.org/external/pubs/ft/fandd/2007/09/straight.htm>

government. SWFs should make this statement formally as part of their basic investment management policies.

- Greater information disclosure by SWFs, in areas such as purpose, investment objectives, institutional arrangements, and financial information – particularly asset allocation, benchmarks, and rates of return over appropriate historical periods – can help reduce uncertainty in financial markets and build trust in recipient countries.
- SWFs should have in place strong governance structures, internal controls, and operational and risk management systems.
- SWFs and the private sector should compete fairly.
- SWFs should respect host-country rules by complying with all applicable regulatory and disclosure requirements of the countries in which they invest.
- Countries receiving SWF investment should not erect protectionist barriers to portfolio or foreign direct investment.
- Recipient countries should ensure predictable investment frameworks. Inward investment rules should be publicly available, clearly articulated, predictable, and supported by strong and consistent rule of law.
- Recipient countries should not discriminate among investors. Inward investment policies should treat like-situated investors equally.
- Recipient countries should respect investor decisions by being as unintrusive as possible, rather than seeking to direct SWF investment. Any restrictions imposed on investments for national security reasons should be proportional to genuine national security risks raised by the transaction.¹⁸²

Investment Promotion in the U.S. and GCC

There is growing consensus that countries are increasingly “turning to the business community as the engine of economic growth and prosperity.” The role that Chambers of Commerce and Investment Promotion Agencies can play is to facilitate growth through private sector advocacy and to promote trade and investment policies that facilitate and support local businesses with an emphasis on developing the framework of government and business relationships.¹⁸³

In the U.S., this role is played by the U.S. Department of Commerce in setting international trade policy, the U.S. Treasury in implementing international investment initiatives, and the U.S. Chamber of Commerce, along with export promotion agencies and special interest groups, among others. The U.S. Chamber of Commerce, for its part, has undertaken a specific U.S.-GCC Relations Initiative which aims to ensure that the U.S. market remains an attractive destination for GCC-based investment. As part of this initiative, the Chamber hosts the U.S.-UAE Business Council, the U.S.-Bahrain Business Council, and is working on a new U.S.-Saudi Initiative. In this position, the Chamber can help mitigate against ‘signals of hostility toward GCC and SWF investment’ — such as were seen during the DP World controversy.

¹⁸² “Treasury Reaches Agreement on Principles for Sovereign Wealth Fund Investment with Singapore and Abu Dhabi,” U.S. Department of the Treasury, Press Release, March 20, 2008.

¹⁸³ “Chamber of Commerce: Combating Corruption and Improving Corporate Governance,” *Center for International Private Enterprise*, Economic Reform Issue Paper, No. 0503, June 16, 2005.

In the GCC, the role of investment promotion authorities is played by various national entities, namely: the Bahrain Economic Development Board, the Kuwait Investment Authority (KIA), the Omani Centre for Investment Promotion and Export Development, the Qatar Ministry of Foreign Affairs, the Saudi Arabian General Investment Authority (SAGIA), and the UAE Ministry of Finance and Industry.

The Bahrain Economic Development Board (EDB)

The Bahrain EDB aims to promote sustainable growth, mainly through developing the private sector, attracting foreign investment, and strengthening the local skills base. “The projects department within the EDB supports and monitors initiatives to improve the economic and business environment in Bahrain. Working closely with both the public and the private sectors, the team aims to improve economic opportunities within the country and remove barriers to growth.” Individual projects are developed based on the four core themes which will deliver a better economic environment for business: *From red tape to red carpet*: creating a business friendly environment; *Government as regulator not operator*: reducing the role of government in the economy and allowing the private sector to drive growth; *Fairness and accountability*: reforming the regulatory and judicial system and improving enforcement; and *Stimulating private sector opportunities*: launching targeted initiatives to stimulate private sector growth. Each initiative has a project team and a project board, with each group comprising representatives from relevant public sector organizations (Ministries, other government agencies, etc.) and related private stakeholder groups, which leads the development of business-friendly policies. Current growth initiatives include: improving Bahrain’s labor market; improving access to capital; developing a master strategy for land; increasing the speed and ease to set up business; and supporting tourism. The EDB is currently looking to entice \$600 million to 800 million of foreign direct investment a year in six key areas: financial services, tourism, information technology, healthcare, education and training, and downstream aluminum manufacturing.¹⁸⁴

The Kuwait Investment Authority (KIA)

The Kuwait Investment Authority (KIA) is an autonomous government body responsible for the management and administration of the General Reserve Fund (GRF), and the assets of the Future Generations Fund (FGF), as well as any other funds entrusted to it by the Minister of Finance for and on behalf of the State of Kuwait. The KIA invests in local, Arab, and international markets and controlled around \$213 billion as of March 2007. KIA maintains an active involvement with the economic and financial developments in Kuwait. It promotes and supports institutionalization of the market through setting up funds and companies to promote and finance local business, and participates in the launch of local investments which have feasible economic returns. KIA helps develop local financial companies by giving them the opportunity to manage some of their investments locally and abroad. Additionally, KIA provides liquidity to the State's Treasury when needed and has setup several companies in the last few years, primarily to promote investments in Kuwait.

¹⁸⁴ Bahrain Economic Development Board — Current Growth Initiatives, retrieved February 27, 2008 from <http://www.bahrainedb.com/default.asp?action=category&id=29>

Omani Centre for Investment Promotion & Export Development (OCIPED) and the Ministry of National Economy (MONE)

The Omani Centre for Investment Promotion and Export Development (OCIPED) was created in late 1997 by Bin Sultan's ministry, and now acts as a conduit between investors, industrial and power projects and the government. OCIPED has a major role in Oman's privatization, focusing on power and desalination plants, gas-based industries and fisheries. The Commerce, Industry & Minerals Ministry is also in charge of tourism in Oman. The ministry's Under-secretary for Tourism is Muhsin bin Khamis al-Balushi. He and Minister Bin Sultan have promoted major touristic ventures. One of their main projects in this field is a resort being developed in the coastal region of al-Sawadi, about 100 km north of Muscat, for which the government has allocated 35 sq km of land. Encouraging foreign investment and promoting industrial diversification, Omani law now treats all companies equally, regardless of their ownership structure. Previously, the state levied taxes on firms with foreign ownership according to the size of their profits and the proportion of foreign shareholders.

The Ministry of National Economy (MONE) is considered to be the authorized body, based on the Royal Decree No. 4/1999, to propose the development strategy and future trends for the national economy and to prepare the country's development plans and investment programs with their implementation priorities as per the approved development objectives. In addition, MONE is responsible for conducting studies on regional and international trends and their impact on the national economical policy of the Sultanate, while working on strengthening the country's public relations in the economic area between the Sultanate and other countries. A foreign investment survey is being jointly undertaken by the Ministry of National Economy, the Ministry of Commerce and Industry, and the Central Bank of Oman. The objective of the survey is to create a comprehensive database that will help create sound economic policies, and contribute to Oman's lasting economic growth. Investment is a vital ingredient for sustaining a healthy economy and, over the longer term, ensuring balanced economic growth, employment opportunities, and essential services for the people of Oman. In the interests of economic diversification, greater emphasis is now being given to attracting foreign investment that will strengthen Oman's economic infrastructure and competitiveness. Expanded investment will also have a direct impact on the local economy by creating demand for a broad range of industrial and consumer goods, resulting in job creation, economic growth, and opportunities for Omani entrepreneurs.

Qatar Ministry of Foreign Affairs

The Ministry of Foreign Affairs in Qatar places the development of infrastructure, including roads, utilities, ports and communications, high on its list of priorities to bring about economic diversification, attract foreign investments, and help increase the sources of national income. General privileges for foreign investors include among others: the freedom to import and repatriate funds; freedom to transfer profits and assets; freedom to exchange money at stable rates; and the benefits of a free market economy. Some of the general incentives for investments according to the Ministry are: the right to import the materials and equipment required for the establishment, operation or expansion of projects; 10-year exemption from income tax effective from the date of commercial commissioning of projects; duty-free imports of equipment and machinery required for projects; and duty-free imports of raw and half manufactured materials needed for industrial projects and not available locally. The Ministry also assists by: preparing

investment opportunities and initial studies for industrial projects; preparing feasibility studies on the technical and economic aspects for projects and providing technical advice for the prospective private investor; providing suitable land sites in industrial estates for industrial projects at reasonable lease rates and long lease terms; assisting the licensed industrial projects to get loans from Qatar Industrial Development Bank and other finance establishments; providing advice and assistance for investors regarding the available information, data and studies on their chosen investment projects; and providing the project with power, fuel, water and natural gas at competitive prices.

Saudi Arabian General Investment Authority (SAGIA)

The SAGIA is working on several initiatives including its Economic Cities — with a vision to contribute between a quarter and a third of the aspired national growth rate, to create over a million jobs, and to become home to 4-5 million residents by 2020 — and its ‘10x10 Program’ whereby Saudi Arabia has pledged to become one of the top ten most competitive economies in the world by 2010. In order to reach this target, SAGIA is specifically promoting investment in: Education, Energy, Health, ICT – Information, Communication, Technology, Life Sciences (such as: biotechnology, research and development), and Transportation. More specifically, investments are encouraged in all educational fields, including but not limited to: specialty learning centers, vocational training centers, language learning centers, University and Higher Education ventures, and learning related products and services; in the energy sector, the focus is on engineering, construction, health and safety, information technology, operations, and maintenance. Opportunities for investors in the health sector include pharmaceuticals, medical equipment, insurance, and education.

UAE – Ministry of Finance and Industry and local Chambers of Commerce

The Ministry of Finance in the UAE could be an important influence in the investment relationship with the U.S. The new head of the Ministry of Economy and Planning is said to be a liberal, pro-business figure with a U.S. university education and reputation as a strong advocate of economic reform. As such, the belief is that she is likely to support favorable trade and investment relations with the U.S. In addition to the Ministry of Finance, local Chambers of Commerce can play an important role. For instance, the Abu Dhabi Chamber of Commerce & Industry (ADCCI) is an autonomous institution, which represents the various productive and services activities of the private sector in the Abu Dhabi Emirate. According to the provisions of the Chamber law, all natural and legal persons, having their headquarters, branch or representation office in the Emirate to exercise any commercial, industrial, vocational or professional activity in the Emirate must join the Chamber and get their membership certificates. The Vision of the ADCCI is to be the leading Chamber in achieving socio-economic development, and its mission is to contribute effectively to the enhancement of the national economy through adopting the best professional and technical practices.¹⁸⁵

Politics and the Importance of Good Governance

No discussion of international trade and investment would be complete without paying particular attention to the significant role of politics and foreign policy in the process of relationship building. This is an essential element of developing the strength of the U.S.-GCC relationship

¹⁸⁵ ADCCI <http://www.abudhabichamber.ae/user/SectionView.aspx?PNodeId=1640>

going forward. Ultimately, to be successful in building U.S.-GCC ties, government support both in the U.S. and the GCC is essential and should come by way of developing effective and enabling legal and regulatory environments. Other organizations can support these efforts, and an example is found in the Organization for International Investment (OFII), a lobbying group representing U.S. corporations and subsidiaries headquartered abroad. The OFII has a three-part mandate: to educate the public and policy makers about the positive role U.S. subsidiaries play in the American economy, to ensure U.S. subsidiaries are not discriminated against in state or federal law through monitoring, reporting, and lobbying, and to provide peer-to-peer forums on issues unique to U.S. subsidiaries.

It has been noted that "[g]ood governance is the most important factor for creating favorable conditions ... both to promote or attract productive investment in the real economy, by local and foreign firms alike, and to make it possible for a country to derive maximum long-term development benefits from that investment." — CIPE¹⁸⁶ A strong relationship exists between governance, investment and economic growth. To attract private capital and foreign investment, good governance is necessary. "Recent evidence shows the crucial potential role of the quality of governance – both corporate and public governance, and their interaction with one another – in creating incentives that are conducive to long-term productive investment in both tangible and intangible real (including human) capital by domestic and foreign investors."¹⁸⁷ There are several important elements of governance that affect institutions and determine the transaction costs that impact the private sector. These include: the relative effectiveness of the national legal system to provide the basis for contracting, including commercial laws that determine how contracts are arranged as well as the court system that underpins the way in which contractual disputes are resolved; the enforceability of the regulatory regime and its ability to govern business activity at the national and local levels; the amount of government ownership and the degree to which it affects business costs (electricity, telecommunications, transportation, et.al.); the strength and viability of property rights; the strength of the financial system, which ultimately determines how businesses are financed; and macroeconomic stability, trade and investment policy, as well as the approach to education.¹⁸⁸

CONCLUSION

The relationships between the U.S. and the GCC member countries have historically been founded on energy (oil trade) and security concerns, but have developed into a broader economic relationship with many opportunities and strong potential for expansion. Current trade and investment levels show room for growth, and opportunities abound for investment in a multitude of sectors, as the GCC ramps up its economic diversification away from dependence on oil revenues. Furthermore, the large SWFs in the GCC region have a significant role to play in FDI into the U.S., and may be a tremendous resource for liquidity-starved financial institutions in the

¹⁸⁶ Chambers of Commerce: Combating Corruption and Improving Corporate Governance, Economic Reform Issue Paper No. 0503, June 16, 2005, *Center for International Private Enterprise*, p.1, Retrieved December 21, 2007 from <http://www.cipe.org/publications/papers/pdf/IP0503.pdf>

¹⁸⁷ CIPE – Private and Public Governance and Investment in Developing Countries, *Center for International Private Enterprise*, Retrieved December 21, 2007 from <http://www.cipe.org/publications/papers/cipeoecd.php>

¹⁸⁸ Adapted from: Holden, Dr. Paul. Government Reforms to Reduce Transaction Costs and Promote Private Sector Development, Economic Reform Issue Paper No. 0406, January 22, 2004, *Center for International Private Enterprise*, p.2, Retrieved December 21, 2007 from <http://www.cipe.org/publications/papers/pdf/IP0406.pdf>

U.S. and elsewhere. However, for true growth and development to occur within the U.S.-GCC relationship, what is required will be improved cross-cultural understanding and communication, as well as support on economic, commercial, and political fronts and cooperation between the public, private, and third sectors. With that foundation in place, the U.S.-GCC relationship will have the potential to be a lasting and dynamic force in the global economy.

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