

THE GRC ECONOMIC

RESEARCH BULLETIN



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Hydrocarbons continue to be a major cornerstone of GCC economies. In this issue, we deal with two aspects of this topic that are often overlooked: First, high oil revenues have led to huge reserves of GCC state funds, but their re-investment in strategic Western companies has come up against political resistance from Western governments recently. Secondly, rapid economic growth has led to skyrocketing domestic energy demands. Natural gas is now in short supply in every GCC country except Qatar, a situation that calls for huge efforts in the fields of

energy conservation and development of existing gas resources. This issue also deals with two peculiar business models: Digital gold available on the Internet could acquire great allure among the two largest gold consumers of the world, the Middle East and India, while growing piles of scrap and garbage have led to a thriving recycling industry in the UAE. Finally, we take a look at important regulatory and policy issues in articles about foreign direct investment, the planned GCC-Singapore free trade agreement, and trademark protection in the GCC.



Dr. Eckart Woertz
Program Manager Economics
Gulf Research Center



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Gulf Research Center
Knowledge for All

THE GRC ECONOMIC

RESEARCH BULLETIN

Editor-in-Chief: Abdulaziz Sager

Editor: Dr. Eckart Woertz

Assistant Editor: Radhika Menon

Concept & Design: Susan Nteife



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Published by

Gulf Research Center
187 Oud Metha Tower, 11th floor
303 Sheikh Rashid Road
P. O. Box 80758, Dubai, UAE
Tel.: +971 4 324 7770
Fax: +971 4 324 7771
Email: info@grc.ae
Website: www.grc.ae

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WEST'S GROWING FEAR OF STATE FUNDS



DR. ECKART WOERTZ
PROGRAM MANAGER
ECONOMICS,
GRC



A specter is haunting international financial markets – the specter of Sovereign Wealth Funds (SWFs) buying up Western assets, putting them at the disposal of potentially “unfriendly” regimes and seriously pushing markets out of balance by changes in their asset allocation towards equities and other higher risk instruments. These developments will affect the foreign investment decisions of GCC investors in a major way. The SWFs are not owned by private individuals and institutions, but by governments of countries that command substantial current account surpluses, i.e. industrializing countries in Asia and oil exporters. Hardly known only a few years ago, they now dwarf the glamorous world of hedge funds and other private institutional investors. Everybody knows George Soros or Warren Buffet, but when it comes to assets under management they are just poor cousins in comparison to the Abu Dhabi Investment Authority (ADIA), Singapore's Temasek or the official reserves of China and Russia, which are currently being moved away from conservative central bank management to the auspices of newly generated SWFs.

As key financiers of the huge US current account deficit, these countries now have more reserves in their coffers

than they need as a precautionary measure for their short-term liability management. Thus, they look beyond treasuries and money market instruments and have developed an interest in higher yielding equities and strategic investments abroad. China is about to move \$300 billion reserves away from the central bank to the newly established State FX Investment Corporation (SFEIC). Russia has already established its Oil Stabilization Fund in 2004 and has recently enhanced the strategy to invest in riskier and potentially higher yielding assets by announcing the establishment of a Future Generation Fund by February 2008. A first taste of things to come was the Chinese purchase of a \$3 billion stake in the private equity firm Blackstone. A Russian state bank has bought a five percent stake in EADS in 2006, and Russian gas giant Gazprom has pressed for market

entry into the retail energy market of West European countries like Germany. With oil prices likely to stay high and Asian export manufacturing continuing to rise, the expected growth of SWF assets is mind boggling – they already manage \$2.5 trillion assets; by 2012, they will have overtaken official central bank reserves in importance; and by 2022, their assets will reach \$27.2 tril-

lion, according to recent estimates by Morgan Stanley. Their size will then be twice the official central bank reserves and their share of worldwide financial assets will have grown from the current 2.5 percent to nearly 10 percent. It is likely that this shift in SWFs towards equities will lead to higher P/E ratios, lower bond prices and rising interest rates. If oil prices should fall, the share of Asian surpluses and SWF assets is expected to increase, while a rise in oil prices will lead to rising assets of the SWFs of oil exporters and would set off concomitant declines of the SWFs of Asian manufacturers. The bottom

GEORGE SOROS OR WARREN BUFFET ARE JUST POOR COUSINS IN COMPARISON TO THE ABU DHABI INVESTMENT AUTHORITY (ADIA), SINGAPORE'S TEMASEK OR THE OFFICIAL RESERVES OF CHINA AND RUSSIA, WHICH ARE CURRENTLY BEING MOVED AWAY FROM CONSERVATIVE CENTRAL BANK MANAGEMENT TO THE AUSPICES OF NEWLY GENERATED SWFS

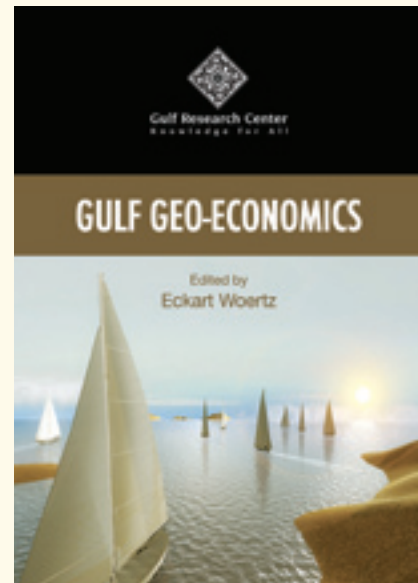


line is that the importance of SWFs in world finance is about to rise significantly in any case.

It is clear that such tectonic shifts in international finance do not go unnoticed and involve power politics as well. Russia was literally bankrupt in 1998 when the IMF refused to give it further credits. With oil prices well beyond \$60, it now holds major foreign assets of \$357 billion. This gets dwarfed by China's \$1.2 trillion and the GCC's \$1.6 trillion. On July 23, David Walker, the US comptroller general and America's leading public finance watchdog, sounded a word of caution, saying that large amounts of US securities in the hands of governments which are not necessarily US allies, such as China and OPEC, are "financially imprudent," as a sell-off by such nations could lead to falling bond prices and rising interest rates, thus hurting the US economy. Even more worrisome for Western governments is the foreign acquisition of large equity stakes in strategic companies such as utilities, energy, banks, logistics and telecommunication. Treasuries can be essentially printed at will as long as the impression of prudent fiscal policies is successfully kept up and one finds buyers. Once foreigners acquire large equity stakes, they gain a direct interest in the respective economies and can have a say in their future developments. Thus, it is a sensitive issue, often unwanted, and moves way beyond plain market economic decisions: the United States did not allow China National Offshore Oil (CNOOC) to acquire Unocal although its bid was better than Chevron's, which finally succeeded, and the P&O debacle of Dubai Ports World (DPW) is also fresh in memory.

This kind of financial protectionism is not confined to the United States; Germany recently discussed a special law to ward off unwanted foreign buyers of strategic national companies. The idea would be to set up an administration like the US Committee on Foreign Investment that thwarted DPW's American aspirations. In 2006, German finance minister Peer Steinbrueck rebuffed Russian telecom company Sistema when it showed interest in taking up a stake in Germany's Deutsche Telekom. Alluding to China's \$3 billion Blackstone deal, Steinbrueck explicitly asked: "What would happen if they invest 10-20 percent of their foreign reserves like that instead of just 0.3 percent?" Other European nations like France, Italy and Spain already have more advanced national industrial policies than Germany; France, in particular, keeps an eager lid on French representation in strategic

GRC PUBLICATION



Gulf Geo-Economics **Edited by Eckart Woertz**

The integration of the Gulf Cooperation Council (GCC) countries into the world economy is increasingly multifaceted. Although oil and gas revenues are still of paramount importance, the GCC countries have developed a diversified economic structure with new sectors emerging in the fields of petrochemicals, heavy industries and services. Apart from new import requirements for these industries, the focus of the GCC's trading relations has moved eastwards. The US only accounts for 10 percent of imports nowadays while the European Union and Asia each roughly contribute one third of overall imports. Furthermore, Asia purchases about two-thirds of GCC energy exports. This has naturally raised questions about potential political realignments although Asia still lags far behind Western markets in terms of cross border investments. Through broad-based strategic analyses and specific sector studies, this edited volume covers various aspects of this ongoing geo-economic positioning, from trade relations, power politics and petrodollar recycling to regional integration, foreign direct investment and labor issues.

companies and even entertains a well reputed institute for “economic warfare” in its capital.

The SWF nations, on the other hand, share the same sensitivities when it comes to their national economies: Russia’s and Venezuela’s policies of renationalizing the oil sector are well documented, and for the same reason, the GCC countries hardly grant any foreign access to their oil upstream sectors. China, on the other hand, is

famous for shielding its market from foreign competition, and the access foreigners can gain to its opaque capital markets is very limited.

The position of the GCC SWFs in these delicate financial power games shows a certain ambiguity. Economic interests, strategic considerations and national sensitivities are all part of the equation and lead to an often divergent picture. The politically weak and less ambitious GCC countries are less likely to raise suspicions on the part of Western governments than Russia or China, which have more political axes to grind. Still, they are part of a notoriously unstable region and its power politics, and in any case, major foreign holdings in strategic companies are regarded as a sensitive issue. The Kuwait Investment Office felt the pinch when it was asked by the British government to reduce its stake in British Petroleum from 21.6 percent to 9.9 percent in 1989. On the other hand, Kuwait is DaimlerChrysler’s largest shareholder since the 1970s; other recent successful acquisitions have been SABIC’s \$11.6 billion purchase of GE Plastics and Dubai International Capital’s purchase of a 3.2 percent stake in EADS, which was welcomed by the company’s management. Qatar’s current multi-billion purchase bid of British retailer Sainsbury also has not caused the kind of political noise that preceded DPW’s P&O deal.

Of course, capital injections of the GCC investors are welcomed by targeted companies, but on the other hand, the sheer amount of the GCC SWF assets and their relative lack of transparency raise concerns. ADIA, for example, is one of the largest institutional investors in the world; still its website shows only a simple page with an address – no organizational charts, reports or press releases. A clearer communication of institutional setups and investment strategies would certainly help alleviate fears on the part of Western governments and targeted companies. The Norwegian oil fund, for example, publishes detailed quarterly reports of its asset allocation and communicates its investment strategy to financial markets. Even without such detailed transparency, the GCC investors have slightly improved their corporate communication in the wake of high-profile deals in the recent past and have gained some kind of brand recognition on international markets. They should continue to do so; on the other hand, they should also be self confident, stand their ground and remind Western governments from time to time that free access to markets is not a one-way street.

Estimated Assets of Oil Funds (US\$ billion), 2006

GCC Sovereign Wealth Funds:	
Abu Dhabi Investment Authority (ADIA)	250-825
SAMA & Government Institutions (Saudi Arabia)	250
Kuwait Investment Authority	160-250
Qatar Investment Authority	30-50
Dubai International Capital	5-10
GCC Central Banks:	
UAE	25
Oman	15
Kuwait	10
Qatar	5
Total GCC	750-1,330
Sovereign Wealth Funds – Other Oil Exporters:	
Bank of Russia Reserves & Oil Stabilization Fund (Russia)	260
Norwegian Pension Fund	286
Kazakhstan	15
Azerbaijan	1.6
Brunei	30
Central Banks – Other Oil Exporters:	
Iran	70
Algeria	70
Libya	50
Norway	36
Nigeria	45
Venezuela	45
Total Other Oil Exporters	908.6

Source: Ramin Toloui, “Petrodollars, Asset Prices, and the Global Financial System,” *Pimco Capital Perspectives*, January 2007, p. 4; Brad Setser and Rachel Ziemba, “What Do We Know about the Size and Composition of Oil Investment Funds?” *RGE Monitor*, April 2007, p. 5, Norwegian Central Bank.

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CONFIRMED SPEAKERS:

H. E. Mohamed Bin Dha'en Al Hamili
Ministry of Energy
Petroleum &
Minerals Sector
Current OPEC President,
UAE

Abdulaziz Sager
Chairman
Gulf Research Center,
UAE

Gary King
Chief Executive Officer
Dubai Mercantile
Exchange (DME), UAE

Dr. Edward L. Morse
Managing Director and
Chief Energy Economist
LEHMAN Brothers, USA

H.E. Ali I. Al Naimi
Minister of Petroleum and
Mineral Resources
KSA

Dr. Tsutomu Toichi
Senior Managing Director
& CKO
Institute of Energy
Economics Japan (IEEJ),
Japan

Dr. Tilak Doshi
Executive Director - Energy
Dubai Multi
Commodities Exchange
(DMCC), UAE

Benita Yau
Director
Strategic Planning
Borouge, Singapore

Dr. Majid Al-Moneef
Chairman
GCC Energy Team
Governor to OPEC, KSA

Dr. Leena Srivastava
Executive Director
THE ENERGY &
RESOURCES INSTITUTE
(TERI), India

Chris Morgan Jones
Regional Managing
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NATURAL GAS – NOW SHORT IN THE GCC

INCREASED RECOVERY RATES AND NEW EXPLORATION ARE URGENTLY NEEDED, SAYS

MORTEN FRISCH, SENIOR PARTNER, MORTEN FRISCH CONSULTING

Morten Frisch has 35 years of hands-on experience in the strategic, commercial and operational aspects of the gas industry. He has been leading gas sales negotiation since 1976. This was also the first year he was involved with LNG projects. Prior to forming Morten Frisch Consulting (MFC) in 1990, Frisch worked for the Norwegian government and international oil companies. He plans and implements commercial gas projects for clients and acts as lead negotiator and expert witness. He has extensive experience in energy projects in the Middle East, Eastern and Western Europe, Russia, Japan, Australia and New Zealand. An engineer and economist, Frisch holds degrees from University of Newcastle-upon-Tyne, UK and Massachusetts Institute of Technology (MIT), US. He has been a member of the Society of Petroleum Engineers (SPE) since 1975.

GRC: Mr. Frisch, natural gas used to be regarded as a kind of unwanted waste product of oil production – the astronauts of the first moon landing could easily locate the Gulf from outer space by spotting the fires that resulted from gas flaring. Now, natural gas has become an increasingly important part of the energy mix of GCC countries, be it to cool hotels and ski slopes, or to smelt aluminum. Still, it seems to lead a kind of shadowy existence in comparison to oil.

Frisch: Indeed, although gas has become indispensable for the national development plans of the Gulf countries, it deserves more attention. We now have an acute natural gas shortage in basically every GCC country except Qatar. Several GCC cities have been witnessing power cuts and problems with water supplies which in the region are mainly gained by gas-fuelled power generation and desalination. Increased recovery rates and new exploration are urgently needed besides a growing role for intra-regional gas trade from Qatar and Iran.

GRC: What is the cause of this gas deficit?

Frisch: Due to leakages, flaring, lack of modern seismic analysis and up to date geological interpretation

of hydrocarbon plays that are gas prone, the average gas recovery rates in the Middle East are only around 10 percent of reserves in place. That's abysmal; usually you can achieve 50-60 percent in a dry gas field. When you have a good sandstone formation with the right permeability and the right people, you can even achieve up to 80 percent recovery. A good example of such a recovery rate is the Anglo-Norwegian gas field Frigg in the North Sea.

GRC: Are similar recovery rates achievable for the GCC countries, and how do you rate their chances of improving exploration and recovery rates?

Frisch: Most of the easy gas has been found and, unfortunately, a high percentage of these reserves have been squandered. This is particularly the case with associated gas, the gas produced together with oil and therefore forming a by-product of oil production. I am confident there are large quantities of un-associated deep gas to be found in the GCC in formations below currently known oil fields. But deep gas, and therefore high pressure gas, needs the most sophisticated seismic techniques to be located and the most advanced drilling rigs to prove up and develop these gas reserves. All of these activities require highly qualified people. There is an acute shortage of seismologists and drilling rigs for deep formations not only in the GCC but worldwide. Investments in equipment and human resources in the oil and gas exploration and production industry have been low since 1986 when the price of Brent crude fell to \$8.5 per barrel. Although the situation is now improving, it will take time to build up this expertise to the level required today. This is an important reason why we observe major delays and cost overruns in the construction of new oil and gas infrastructure projects worldwide.

GRC: How is this gas shortage transforming the GCC energy scene?

Frisch: Gas developments in the Gulf area are gaining momentum. Dubai has been paying \$4.75 per million Btu

for pre Dolphin gas supplies from Qatar, up from some \$1.00 under other gas supply contracts. Abu Dhabi, one of the GCC areas with the largest gas reserves, is looking at ways to free up gas production for the UAE energy market. Kuwait is considering importing gas in the form of LNG, and the country is planning to build a fourth refinery at a cost of some \$12 billion to produce 615,000 barrels per day of environment-friendly gas oil for the country's electrical power and desalination plants. This is necessary since Kuwait has failed to secure the necessary gas supplies for these industries. Oman is trying to import a minimum of 10BCM/Y (2.5 billion cubic feet per day) of pipeline gas from Iran. Domestic gas demand in Qatar will increase three-fold between now and the end of 2010. Gas demand in Saudi Arabia is forecast to increase by some 40 per cent from 72 BCM/Y (7 billion cubic feet per day) today to some 101 BCM/Y (9.7 billion cubic feet per day) by end 2012. To achieve the necessary gas production to meet this level of demand, the Kingdom is planning to drill 186 exploration wells for gas and 332 gas development wells by 2012. Securing the necessary drilling rigs and personnel to achieve this goal is likely to be a challenge. Bahrain, Dubai and the northern Emirates are also very short of gas to the extent that it has impacted on the operation of power and desalination plants, and therefore the availability of electric power and water.

GRC: In case demand cannot be met, what would be the alternatives?

Frisch: In fact, demand already is not met! Last summer, power stations in the GCC countries switched to firing fuel oil and raw crude oil as they did not receive sufficient gas supplies. The heavy burning of liquid hydrocarbons, crude oil and petroleum products up to a total of around 1.5 million barrels per day witnessed in the GCC last summer is recurring this summer. This is again likely to be an important factor in world energy markets as it affects pricing of crude oil and even more so petroleum products such as diesel and gas oil this summer. This liquid burn was, in my opinion, an important factor when Brent crude oil touched \$80 per barrel in August. To make matters worse, we might see shortages in the supply of heavy fuel oil for GCC countries in the medium term as the construction of deep conversion refineries like Rabigh in Saudi Arabia will lead to increased output of petrol and diesel at the expense of fuel oils.



MORTEN FRISCH: 'LNG'S IMPORTANCE IS CLEARLY GROWING IN COMPARISON TO PIPELINE GAS'



GRC: How does the growing role of Liquefied Natural Gas (LNG) fit into this picture?

Frisch: Although LNG still represents only 7.2 percent of worldwide gas demand, its share of internationally traded gas is much higher and stands at 23.8 percent. (According to Cedigaz, internationally traded gas constitutes 30.2 percent of worldwide gas production and excludes consumption in gas-producing countries like US, and Russia, and in the GCC). LNG's importance is clearly growing in comparison to pipeline gas since an increasing number of countries are turning to LNG as a source of energy. LNG exporters in Abu Dhabi, Qatar and Oman are now competing head-on for feed gas supplies with the gas supply needs of local markets. The situation in Iran will be no different if this country also should manage to develop an LNG export industry. The local gas supply situation in the Gulf area is, therefore, gaining global importance from both a petroleum product pricing and supply perspective as well as in relation to the future supply of LNG from the area.

GRC: It has been argued that the growing role of LNG will turn natural gas into a globally traded commodity like oil, and that this in turn will lead to the development of a "Gas-OPEC" or "GASPEC". Cooperation agreements have already been entered into between Russia's Gazprom and Algeria's Sonatrach, and Gazprom and Qatar Petroleum have recently executed an MoU for cooperation in gas supply. Algeria, Iran and Venezuela have called for a GASPEC, and the Gas Exporting Countries Forum (GECF) was established at a meeting of gas exporters in Tehran in 2001.

Frisch: All this talk about GASPEC is a storm in a tea cup. One could even call it an hysteria, created by ill-informed politicians. Pipeline gas is still dominant and producer-consumer dependences are thus much closer than in the case of oil.

GECF is an embryonic organization with no formal membership. At its last ministerial meeting, 16 countries participated as "members". Although these countries collectively control 73 percent of the world's gas reserves and 43 percent of the world gas production, they have diverse interests in the international energy market. The GECF "member" countries are not willing to disclose the commercial terms of their respective long-term gas supply arrangements with other participants. Without such

cooperation, the organization is unlikely to be able to influence the commercial environment in which gas is internationally traded.

One development that could support closer cooperation among GECF countries would be the development of surplus LNG liquefaction capacity, and hence increased spot trading in LNG. Currently there is a shortage of LNG product. Also there is no common quality standard for the LNG produced around the world and the infrastructure forming part of the LNG chain such as LNG tankers; this is also restricting trade. Furthermore, there is no possibility of storing LNG cost effectively over longer periods of time in producing countries, something that would give market power to a GASPEC. Gas storage normally takes place in consuming countries either in the form of LNG or, more commonly, in the form of pipeline quality gas in underground storage reservoirs. It is, therefore, not surprising that GECF after six years of operation at best is a loose consultative body.

GRC: What is your opinion about energy conservation, and alternative energies like nuclear and solar, as a means to overcome the current gas shortage in the GCC?

Frisch: Tremendous scope for energy conservation exists in GCC countries. The available gas resources could also be used more effectively if closer cooperation existed between gas producers and the electricity and water industries. The GCC has, in the past, declared the need to construct a gas grid among member countries in the same way as a high voltage electricity grid is taking form. Such cooperation can only be encouraged since it likely would help gas supply security in the region and also the optimization of gas use.

Another problem is subsidies. If gas prices were allowed to move freely in GCC energy markets, the right price signals would be given to producers, and gas supplies would likely increase substantially. At the same time, gas consumers will reduce their demand to more efficient use of this clean and valuable energy resource.

The possibility of producing electricity and water from nuclear energy in the GCC countries exists. However, it is likely to take at least 15 years between a decision to build a nuclear industry and the first plant becoming operational. In the meantime, the GCC countries will need gas supplies and also renewable energy sources such as solar, wave and wind power.

THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN THE MIDDLE EAST



TIM ROGMANS
NYENRODE
UNIVERSITY
BREUKELEN
NETHERLANDS



Since the Asian currency crisis of the late 1990s, Foreign Direct Investment (FDI) is increasingly seen as a source of foreign exchange which is less vulnerable to sudden withdrawal than portfolio investment. In addition, FDI is accompanied by important knowledge spill-over effects. Many emerging economies therefore see attracting FDI as an important step in promoting a country's development.

As a result, the factors that determine the success of countries in attracting FDI have received increasing attention among academics and policymakers. As a way to measure the success of countries in attracting FDI, the World Investment Report (UNCTAD) calculates the inward FDI performance index. The measure divides a country's share of world FDI by its share in world GDP. A score of more than one suggests that a country is attracting more FDI than its weight in the world economy would suggest (and vice versa for a score less than one). The index can be applied to periods of one year or longer. Although other similar measures have also been developed, the FDI Performance Index has the benefit of being easily understood, comparable across countries, and focussed on FDI flows rather than FDI stocks.

The performance of countries in the Middle East in attracting FDI over the last 20 years is relatively poor on the whole, but with significant differences between countries and over time. During the 10-year period

from 1992-2003, the FDI Performance Index for both the Middle East as a whole (14 countries) and for the GCC was below one for every year in question and the indices average 0.3 for the period. In other words, between 1992 and 2003, the Middle East accounted for around 2.4 percent of world GDP, but attracted only 0.7 percent of global FDI flows. In the same period, the performance of the GCC nations was worse – they accounted for 0.9 percent of global GDP and attracted only 0.2 percent of FDI flows with a FDI Performance Index of 0.23.

The picture since 2003 looks markedly different (see figure 1), with FDI Performance Indices rising quickly above one for both the Middle East and the GCC. Significantly, the GCC nations suddenly perform better than the Middle East as a whole. Although many countries contribute to the improved performance, the GCC states of Bahrain, Qatar and UAE stand out (see figure 2). FDI into Saudi Arabia has also increased tremendously since 2000, but the country's Performance Index remains less than one, indicating there is still room for further growth. Outside the GCC, Egypt, Turkey and Jordan have shown strong improvements. Lebanon's FDI Performance is consistently high, but carries little weight in the calculation of the region's overall index.

Various academic studies have come to the conclusion that the size of a country's economy as measured by its GDP and openness to trade (or export orientation) are among the main determinants of FDI flows into a country. The role of GDP is not surprising, hence the fact that the FDI Performance Index already corrects for a country's GDP. The relationship between openness to trade and FDI flows has been amply demonstrated, but the direction of causality is



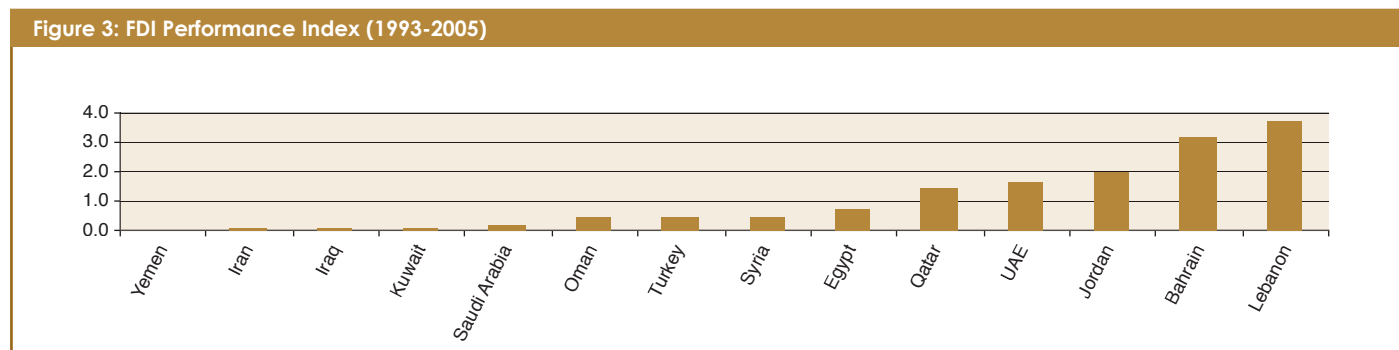
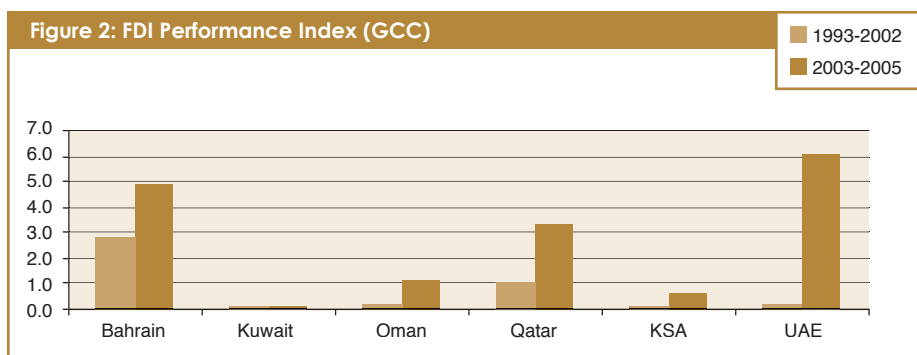
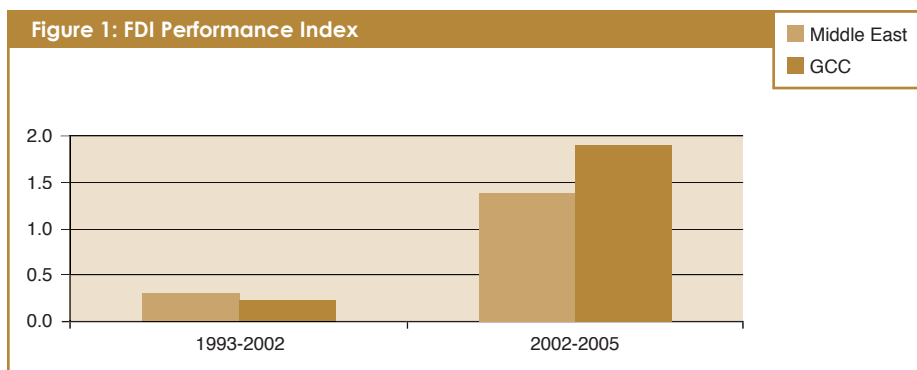
not clear. Does trade cause FDI or vice versa? Another major area of study has been the role of a country's institutional framework and of different political risk elements, with countries offering stable and transparent institutions being more successful in attracting FDI.

The size of a country's GDP, the GDP growth rate and openness to trade are considered self evident and are not discussed further here. The role of risk may seem obvious at first, but the data for the Middle East shows a surprising picture. Carrying out a regression analysis between the overall political risk ratings by two of the world's most used risk rating agencies (Global Insight and International Country Risk Guide - ICRG) and FDI performance of countries in the Middle East, it appears there is no relationship between political risk and FDI performance. Only very specific risk measures relating to the stability of a country's legal environment (using Global Insight data) and the stability of the government bureaucracy (using ICRG data) show significant relationships with inward FDI performance. This conclusion is in contrast to academic studies that have investigated the relationship between FDI inflows and political risk in other regions.

The explanation for this apparently insignificant role of political risk in determining FDI inflows can be found in two factors that are not usually considered in analyses of FDI. The first is the presence of

natural resources, specifically petroleum. It might be expected that the presence of oil in a country would make it attractive to foreign investors. If we take OPEC membership as a proxy for petroleum resources, we find that of 14 Middle Eastern countries, six are OPEC members. Surprisingly, when we rank the countries according to the average FDI Performance Index over the last 13 years, we find that the top three performers are all not OPEC members (Lebanon, Bahrain, Jordan), whereas four out of the bottom five performers are OPEC members (Iran, Kuwait, Iraq, Saudi Arabia - see figure 3).

The explanation for this can be found in a second factor that is rarely analyzed when considering FDI



flows; ownership restrictions on FDI. Restrictions on foreign investment can take various forms, such as limitations on foreign majority ownership in certain or all sectors, or restrictions on the repatriation of profits. FDI restrictions are difficult to measure objectively. Although the OECD has developed a methodology to rate such restrictions, this method has not yet been applied to the Middle East. The only data available on the topic for the Middle East is from the World Economic Forum's Arab World Competitiveness Report, which reports responses from executives regarding their perception of foreign ownership restrictions in nine Middle Eastern countries (2007). The report shows that the top five countries in terms of perceived openness to foreign investors are all not OPEC members. The four countries that are perceived to have the most restrictions on foreign investment include three OPEC members and Syria. Although not an OPEC member, Syria's government relies for 40 percent of its government revenues on oil. A regression analysis of FDI Performance and openness to FDI shows that there is a significant positive relationship between the two variables.

In summary, until 2000, countries rich in oil have received little FDI due to restrictions on foreign ownership. In an era when FDI was considered as just a way to earn foreign exchange, oil producers found they had no need for FDI. They preferred to keep ownership of

their natural resources and obtained necessary expertise through joint ventures and licensing agreements.

Since 2000, oil-producing countries have accelerated their drive to grow and diversify their economies. Having learned the lessons from the Asian crisis, they have started to open up to foreign investors and, as a result, they have been attracting significantly more FDI than before. In this respect, they have easily overtaken their non-oil producing neighbors in the region. However, the executives' perceptions in the WEF report show that there is still progress to be made. In contrast, non-oil producing nations such as Bahrain and Jordan have opened up to foreign investors much earlier, with good results.

If Middle Eastern nations want to attract FDI in order to diversify and grow their economies, they first need to provide a stable and transparent regulatory framework. For example, Saudi Arabia's joining of the World Trade Organization in 2001 has been a catalyst for both the liberalization and transparent regulation of major industries including telecommunications, banking and insurance. Although the regulatory reform process still has further to go and Saudi Arabia's FDI Performance Index remains below one, great progress has been made. Other countries wishing to boost their development through inward FDI could follow this example.

The regulatory framework should include clear rules for foreigners doing business and these rules should differ as little as possible from the rules that apply to locals. Finally, governments should work through their investment promotion agencies to explain to potential investors why their countries are attractive to invest in. Experiences and perceptions of investors spread quickly. Given the herd instinct that foreign investors often display, communication is another critical success factor in attracting FDI.

Table 1: Foreign ownership of companies in your country is
1 = rare, limited to minority stakes and often prohibited in key sectors
7 = prevalent and encouraged

Kuwait	2.9
Syria	3.2
UAE	4.5
Qatar	4.6
Egypt	4.7
Turkey	4.8
Bahrain	5.1
Oman	5.4
Jordan	5.8

Source: World Economic Forum, *Arab World Competitiveness Report, 2007*

Note: Saudi Arabia was not included in the 2007 Report, but was rated 3.9 in the 2005 Report

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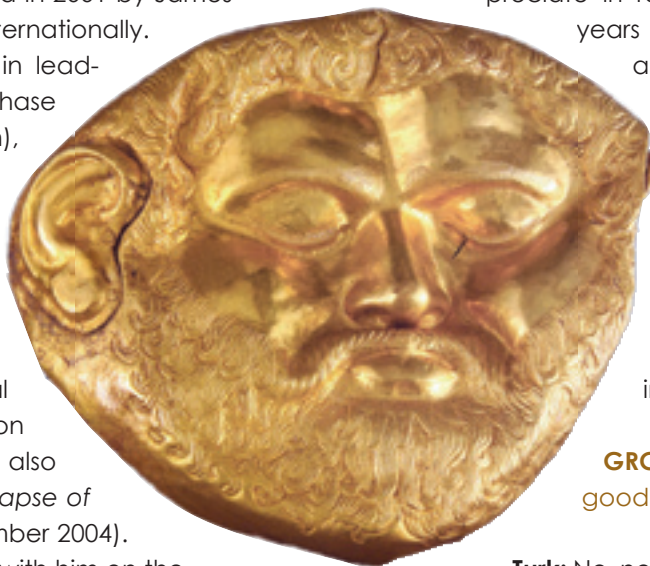
TAPPING A GOLDEN OPPORTUNITY

JAMES TURK, FOUNDER OF GOLDMONEY.COM, EXPLAINS HOW HIS COMPANY SEEKS TO RE-ESTABLISH GOLD'S ROLE AS A CURRENCY ACCESSIBLE TO EVERYONE

GoldMoney is the leading provider of gold transactions via the Internet. It was founded in 2001 by James Turk and is now expanding internationally. Apart from holding positions in leading international banks like Chase Manhattan (now JP Morgan), James Turk was manager of the commodities and precious metal department of the Abu Dhabi Investment Authority (ADIA) between 1983 and 1987. He is the author of two books and several monographs and articles on money and banking. He is also co-author of *The Coming Collapse of the Dollar* (Doubleday, December 2004). We had the chance to speak with him on the sidelines of the Terrapin commodities week in Dubai:

GRC: What is the rationale in today's world to buy gold? Isn't it a "barbarous relic" like John Maynard Keynes once termed it?

Turk: It was the "gold standard" that Keynes called a barbarous relic, not gold. He favored government management of money, and the gold standard exerted a discipline on the money creating process that ran counter to Keynes' thinking that governments should be able to expand or contract the money supply at will. The ongoing debasement of national currencies for several decades I think proves Keynes was wrong because governments only inflate the money supply, which also shows that gold is still useful. Gold has functioned as money over thousands of years, and its buying power has proven remarkably stable over time. In contrast to paper currencies, it cannot be printed at will by spendthrift governments. With an ounce of gold, you could buy a suit in the Middle Ages or in the 19th century as you can do now, but I doubt that you will be able to buy a suit with \$650 10 years from now.



Depending on its cycles, gold sometimes can even appreciate in real terms. For example, a few years ago my wife wanted to buy a new car. I was hesitant as the price of gold relative to financial assets like stocks was low, so we decided to wait. Last year we bought the car for half the price in gold terms compared to what prevailed a few years earlier, while its price in dollar terms has even increased slightly!

GRC: So you would say gold is a good investment?

Turk: No, not at all, gold is a poor investment because it yields nothing, unless you take risks with it by lending it out to earn interest on your loan. But it is great money as gold has proven to be a reliable store of wealth over centuries. Certainly it can also appreciate in real terms from current levels, not only in comparison to paper currencies like the dollar, but also to financial assets. Gold's valuation compared to stocks is currently historically low.

But overall that's not the reason why you should hold gold. It is money you save for future consumption. If you want to generate a rate of return, you can invest in mining companies or undertake leveraged speculations with paper gold contracts like futures and options, but these asset classes come with an entirely different risk structure, like engineering risk, political risk and counterparty risk.

GRC: What was your idea when you founded GoldMoney? What is new that it brings to the table?

Turk: The initial idea came to me when I was still working in banking and witnessed the collapse of Germany's

Herstatt Bank in 1974 because of the huge losses it incurred in foreign exchange trading. I thought it would be good to re-establish gold's role as a currency accessible to everyone and enable them to benefit from its advantages, namely the fact that it is no one's liability and does not have any counterparty risk. At that time of course, the technology in the form of the Internet and personal computers was not available yet. It took quite a while, but once the technology was there, I founded GoldMoney. With GoldMoney you are not depositing gold, and accepting a liability for your money as you would with a bank. Rather, you own the gold we store for you, and we have a strong governance procedure to ensure that your gold is safe. For every gram of gold owned by our customers, there is a gram of gold stored in the vault in London. GoldMoney is not a gold certificate like many banks are issuing, which is only backed by the credit of the bank, and for which there is often no gold in their vault. But besides being a way to save with gold, GoldMoney also offers the opportunity to make payments in gold between GoldMoney account holders at lower costs than normal bank transactions. For example, the maximum payment fee in GoldMoney is about \$2, which is only a fraction of the cost of bank wire transfers, plus payments in GoldMoney are conveniently online and immediate.

GRC: How is GoldMoney's position in the market, and do you have any expansion plans in the Gulf?

Turk: Currently we have 30,000 accounts, and we are storing about \$200 million worth of gold and silver owned by our customers, which makes us by far the largest provider in the field. In addition, contrary to others, we are managed by a fully regulated trust company with corresponding audit and compliance. About two-thirds of our customers come from the US and Canada. In Europe we have a strong presence in the UK, and currently we are expanding in Asia. Hopefully, by next year we will also enable our customers to begin storing gold in Dubai. I also see a lot of potential in the business with migrant remittances. Our largest margin is about 3 percent even when buying small amounts of gold, like 50 dollars. Thus we are cheaper than the banking system. At the same time, we are offering a much more cost effective way to buy gold than purchasing jewellery, for example, which is a favorite way of saving by many people in the sub-continent. We have views about eventually expanding in India as well.



JAMES TURK: 'GOLD HAS PROVEN TO BE A RELIABLE STORE OF WEALTH OVER CENTURIES'



GRC: What would be the advantage of storing the gold in places other than London?

Turk: It is all about diversification because diversification reduces risk. People want to have their gold in places that have different political risks. It is well known that gold holdings by individuals were illegal in the US between 1933 and 1975. Gold possession was declared illegal, the gold cover clause of the US dollar was broken, and the dollar was devalued, which means the gold price was deliberately raised from \$20.67 to \$35. This sudden 69 percent devaluation of the dollar enabled the US government in the New Deal era to pursue its revolutionary policy of economic stimulation by monetary debasement. People are concerned about government actions like this, and thus, today an American would rather store his or her gold in Switzerland, while a Frenchman might prefer the US as he deems Switzerland too close to the French taxman.

GRC: If you recall your old times as head of commodities and precious metal trading at ADIA, what has changed in the business in the Gulf since then?

Turk: Gold has always had a big allure in this region, and Dubai already served as a gold trading hub to India at that time. What has changed certainly is the building activity. The cities are much bigger with extensive real estate development and that is a difference like night and day. Another change is the rapid development of tourism, but the role of gold in the region hasn't changed that much. It is still valued highly as a key component of portfolios. Who knows, maybe even the governments in the region will discover its virtue. Gold has retained its purchasing power in comparison to oil over the last 60 years, while the dollar clearly has not.

With other GCC countries now reviewing their currency pegs to the dollar as Kuwait has done, they should be thinking about defining their currencies as a weight of gold rather than some basket of constantly inflating fiat national currencies. Linking to gold would bring a level of price stability to the region not available from linking to any basket of currencies.



Photo courtesy: Deutsche Bank

CASH FROM TRASH



RAMESH IYENGAR
DEPUTY EDITOR
GULF TODAY
SHARJAH



Recycling waste is big business across the globe and the UAE, which has one of the world's highest per capita waste generation rates – an estimated 750 kilograms a year. Now, the country is unveiling grand plans in recycling that may change the face of the country.

A key concept of modern waste management, recycling, by definition, is the reprocessing of materials into new products. Recyclable materials from both home and industries may include items ranging from paper, glass, aluminum, textiles, plastics to biodegradable waste and even printer ink cartridges. Recycling also helps cut the demand for new materials. For example, a ton of recycled paper saves around 17 full-grown trees.

Tackling over 500,000 tons per day of solid waste, including commercial, household, industrial and agricultural waste, is no easy task. Experts point out that 40 per cent of the UAE municipal solid waste can be recycled as well as reused. The government is in the process of privatizing some services or even opting for public/private partnership. In fact, the Abu Dhabi government earlier privatized a section of the municipal solid waste collection and transportation services.

Dubai Scenario

Though Dubai has gained the distinction of being one of the most rapidly growing cities in the world, it also has to contend with the fact that waste in the emirate has tripled in the last six years.

Dubai generated one million tons of waste in 2000 and it went up to almost three million tons in 2006, according

to Dubai Municipality's Acting Director General Nasser Lootah. Industrial and construction waste also increased from three million tons to 10.5 million tons during the same period. Waste is dumped in different landfills located at Al Qusais, Jebel Ali, Lehabab, and Hatta. The Al Qusais landfill receives 77 per cent of Dubai's total waste and remains the largest.

Dubai Municipality started the Middle East's largest material recovery facility, Tadweer, which went into operation at Warsan in March and can recycle 4,000 tons of municipal solid waste per day. Tadweer helps minimize waste by recycling paper, plastic, metal and glass objects for reuse as raw material to manufacture other things, such as plastic balls and synthetic boards. The residues from sorting and recycling will be treated further, using better technology to produce enough electrical power to cover the requirements of the project. The corporation has spent Dh500 million in building the facility.

C & D Waste

About 30,000, or 24 per cent, of the world's 125,000 construction cranes, are said to be currently operating in Dubai and it is not hard to imagine the negative impact of construction waste on the environment. In March this year, Dubai-based Al Rostamani Group, established the Emirates Recycling Facility (ERF) aimed at recycling and recovery of the city's construction and demolition (C&D) waste.

The Emirates Recycling plant, built at a cost of over Dh65 million and located in the Al Lusaily area on the Al Ain-Jebel Ali road, has the capacity to convert the more than eight million tons of construction waste material generated in Dubai annually into usable road and construction base aggregate. The Dubai Municipality had to handle 10.5 million tons of construction and demolition waste in 2006. In fact, C&D waste makes up 75 per cent of the total waste generated in Dubai every year, according to municipality officials.

The ERF project is being portrayed by the authorities as a perfect example of civic partnership between public

and private sectors with the common goal of improving the living standards and well-being of the community. The plant is designed to receive, sort, separate, crush, sieve and process the city's concrete, asphalt and cement C&D debris and turn it into aggregate materials of three different sizes for use in road-base construction, as base material for ready-mixed concrete elements and for landfill. C&D recovery is considered global best practice, and is in place in nations around the world from Japan to the entire North American continent.

Recycling Park

As well as the above initiatives, a Dubai Recycling Park, which is expected to be the first fully integrated waste management and recycling park in the Middle East, will be developed on a site measuring 1,500,000 square feet with a 49-year lease agreement with Dubai Industrial City and a capital investment of up to \$150 million. Construction is expected to commence in the first quarter of 2008 and will be fully completed within 18 months.

Capital Move

The Abu Dhabi government last September awarded Al Qudra Holding, a recycling project for home solid wastes for the emirate valued at Dh1.27 billion. Abu Dhabi generates some 2,300 tons of solid waste per day. The project aims at preserving the environment by recycling home solid wastes including plastic and paper, aluminum, metals, glass as well as greenery.

Sharjah's Plans

The proximity with Dubai and rapid growth has led to solid waste production in Sharjah rising at the rate of 13 per cent per annum while waste dumping sites have already received stuff to their capacity. Sharjah produces a total of 1.1 million tons of waste per year.

Realizing the need for drastic action, the Sharjah Municipality launched a large waste recycling company that is flaunted as "the biggest in the Arab region." Beeiah is a limited liability joint stock company of the Sharjah Municipality, the JMS Property Development LLC and Tactical Connections Canada. At the first stage, Beeiah will collect, sort out and classify waste within the following categories: aluminum materials, plastic materials, paper, glass and ceramic, building materials, iron and organic materials. These will be sent to the recycling factory, which will be operational by late 2008.

A waste recycling factory is being set up in Al Saj'ah area and will depend on the latest international technology in the recycling industry under the supervision of specialists and technicians. The company will also set up branches in all other municipalities of Sharjah. The authorities see Bee'ah as a practical solution to tackling waste, particularly as 65 per cent of waste is convertible and can be recycled.

Aluminum Advantage

With a view to encouraging companies and institutions to reduce their waste, the Emirates Environmental Group

Photos (1 & 2 from left) courtesy: Dubai Municipality



has been organizing several events, including annual recycling competitions in the UAE. The EEG collected 644,000 kilograms of materials for recycling last year with Dubai and Abu Dhabi as hubs. The collection of these materials is done by the private sector. Once collected, the paper, glass, aluminum cans and plastic are either sold to local factories or exported.

While paper and cartons form the bulk of favorable items for recycling, aluminum is not far behind. The main drivers that favor recycling of aluminum scrap have been low capital requirement, low gestation period and low cost of conversion. Globalization and competition have prompted the secondary aluminum industry to assure the quality of the secondary metal. Besides, an environment friendly process makes the option of aluminum recycling attractive. A wide choice of technology and design is available to process aluminum scrap.

Another key to a successful aluminum recycling industry is access to segregated and identified alloys, reveals C. Ramasamy, presently working as a technical advisor for a Nigerian-based company. The numerous opportunities for design and creativity which aluminum offers architects are a prerequisite for putting new and lasting ideas into practice. The fact that there is practically no need for any maintenance is a contributing economic factor. Aluminum protects foodstuffs and medicines against deterioration. Aluminum packaging offers maximum packaging performance with minimum use of material. The high potential energy savings during the life

of aluminum products often exceed the actual energy consumed during all the stages from extraction to finished product.

Aluminum recycling offers several attractions: It saves around 93 percent of the energy needed to produce the primary metal. The energy required to produce 1 metric ton of aluminum in a modern smelter will be around 15,500 units of electricity, whereas the energy required for melting scrap is only around 1,200 units of thermal energy.

The benefits are too many: Aluminum scrap can be recycled again and again without any loss in property. Using recycled metal is cheaper. Modern recycling is eco-friendly. By recycling, around 600,000 tons of bauxite per annum can be preserved for the future for around 100,000 tons of aluminum. In Europe, US and Japan, recycled aluminum is used for making aluminum sheets and coils which, in turn, are used in beverage cans, building, transport and cookware. Similarly, most extruded and cast aluminum products are made from recycled metal. This leads to the most economical application of primary (therefore purer) aluminum.

Commercial Opportunities

Coping with huge quantities of solid and municipal wastes poses a formidable challenge, but the UAE is geared up for the task. Though millions of dollars have already been pumped into various projects, opportunities remain for more international companies that offer sophisticated technologies in the field to join the battle to tackle waste. With the authorities keeping an open mind on involving the private sector, the opportunity is indeed green.



FREE TRADE AGREEMENT TO FORGE CLOSER LINKS BETWEEN GCC COUNTRIES AND SINGAPORE



THAM THIAN SENG
SCHOOL OF BUSINESS
SINGAPORE MANAGEMENT
UNIVERSITY,
VISITING RESEARCHER
AT GRC



Initial negotiations to formulate a rough proposal for the GCC-Singapore Free Trade Agreement (FTA) began on January 18, 2007 in Saudi Arabia amid optimism and promises of commitment to regular talks. The issue was again brought up during a brief visit by the Secretary

General of the Gulf Cooperation Council (GCC) Abdulrahman Hamad Al-Attiyah to Singapore on June 8.

The meeting of the GCC states and

Singapore has long been viewed as an inevitable convergence of two significant economic powerhouses. Both parties favor free trade, as shown in Singapore's longstanding distaste for trade barriers and the GCC's low trade tariffs under its customs union policy. The formation of the GSFTA would mark the first in a series of necessary stepping stones toward wide-ranging cooperation between the Middle East and Far East.

The GSFTA is a culmination of several high profile exchanges between Singapore and the GCC in recent years, effectively merging Singapore's previous bilateral FTA negotiations with Bahrain, Kuwait, Qatar and the UAE on a broader scale along with Saudi Arabia and Oman. The framework for the FTA is said to be based on its predecessor, the Qatar-Singapore FTA, which was near to materialization, and provides a hint of the key issues that would surface in future dialogue. Areas that may be included are trade in goods and services, investment, government procurement, customs, and media cooperation in addition to the reduction of trade barriers and tariffs. However, the GSFTA negotiations, which are currently in preliminary stages, may be far from fruition. This is especially so with the



involvement of five other GCC states, each with its own agenda and unique dynamics, which could pose a possible hindrance to successful negotiations.

In light of the repercussions in the Gulf region from failed Western foreign policy, there seems to be a willingness among the GCC countries to explore opportunities in the East. The GSFTA is an opportunity to create a gateway to the unfamiliar Asian region through politically and economically stable Singapore, which could serve as a base for first movers from the GCC to penetrate new markets.

Similarly for Singapore, rapidly saturating markets in Asia and the abating luster of WTO multilateral trade talks have compelled the country to reach out to its trading partners in a flurry of hastened FTAs. Being a nation whose economic growth hinges on international trade, its Prime Minister reportedly remarked that the country “cannot eat the disk drives” churned out by its huge electronics industry. The GSFTA will be a welcome addition to Singapore’s economic strategy to reinforce its business infrastructure through the establishment of extensive trade links and ensure the longevity of its trade connections.

Existing custom union trade tariffs of five percent when dropped in the face of the GSFTA will endow Singapore exports bound for GCC markets with increased competitiveness and significant cost savings. Singapore is the fifth and eighth largest import partner of the UAE and Saudi Arabia respectively. The GSFTA would mean substantial tariff savings in its major export sectors of chemicals,

electronics and consumer goods. The rapid urban development in the Gulf States will increase the demand for lifestyle options and consumer goods, an opportunity the Singapore government has been capitalizing on by urging homegrown businesses to expand to booming cities like Dubai and Doha. Major Singaporean exports such as chemicals, electronics and instrumentation equipment are expected to be desirable inclusions in the diverse list of commodities for the Gulf market.

Sources claim that trade tariff reductions from the GSFTA are expected to have a significant impact on overall trade, quoting figures that show trade volume surge in recent years between GCC states and Singapore. However, such figures may be misleading due to the nature of Gulf exports to Singapore comprising mainly of petroleum – the escalating price of and demand for petroleum inflate raw trade volume. The FTA in discussion, however, seems to span a wide range of aspects, a far cry from the focus on tariff savings in past days. Understandably so, due to the fact that a FTA will do little to reduce protectionist barriers or tariffs for GCC exports as there already exists a free market in Singapore.

The incentives offered to the GCC states, therefore, can be expected to cover a broad range of benefits which include a strategic repositioning to attract Foreign Direct Investment (FDI) from East Asia and obtain better access for GCC investors in ASEAN and the Far East. The GSFTA is likely to replicate the India-Singapore Comprehensive Economic Cooperation Agreement



(CECA), an antecedent with an investment chapter that accommodates foreign companies with partners or operations in Singapore to enter into the rights and privileges of the FTA. This would effectively draw investments of foreign firms in Singapore to the GCC, and would certainly prove enticing to nations like Saudi Arabia that have expressed interest in leveraging on Singapore as a platform for the Asia market. More activity can be expected from investment giants like Singapore's Temasek Holdings and the Abu Dhabi Investment Authority in the Gulf and ASEAN markets.

The GCC economy is dominated by industry, including the prominent oil sector, which accounts for more than 70 percent while the services sector accounts for only 27 percent. On the other hand, services sector accounts for 66 percent of Singapore's economy while industry makes for 33 percent. The contrast in both economies suggests the nature of the demand and supply arising from increased trade. The main industrial outputs of GCC like aluminum and petrochemicals will be sought after for re-export to the neighboring ASEAN countries. GCC raw materials for construction and engineering are much in demand in Singapore for domestic manufacturing and also re-export.

Predictably, financial, educational, research, e-commerce and other professional services will be Singapore's main export to the Gulf market. Singapore's focus will therefore be on the trade in services chapter of the GS-FTA. The stark contrast between the two economies can be a source of synergy. Services in the form of management contracts and expertise consultancy complement industrial sectors and value added products and can increase overall competitive advantages for both parties.

The coupling of the UAE and Singapore in particular will bridge two major re-export hubs, increasing logistical and mercantile flow. Refinement and simplification of customs procedures will allow for shorter goods-to-market cycles for GCC and Singapore products. In addition, the introduction of a Mutual Recognition Agreement (MRA), if approved by all sides as being in their interest, will allow for the avoidance of duplicate testing in electronics and telecommunication products. Quota

reductions and removal of restrictions on access of service provision can be anticipated to be high priority in Singapore's demands. Other clauses would include the easing of immigration and goods control, intellectual property and investment protection, and equal legal treatment to facilitate and enhance trade in services.

However, an area of possible contention is the petrochemical industry. Singapore is itself a major exporter of petrochemicals, importing crude oil to refine into products for export. Expanding petrochemical refining capacities in the GCC states, especially Saudi Arabia, Qatar and Kuwait, hint at potential rivalry and competition with Singapore in lucrative overseas markets. This issue

will undoubtedly manifest in FTA talks as concern about Singapore petrochemical products enjoying the same tariff exemptions as other commodities.

Singapore sources, however, reveal a more optimistic view. GCC states currently utilize Singapore as a major oil refining and petrochemical hub for distribution to the Asian region. Crude oil is supplied to Singapore to be refined and the products shipped to other countries. The advantage of such an arrangement lies in the fact that Singapore is a free trade hub with free trade links with ASEAN, China, Japan and Korea, enabling a range of petrochemicals to circumvent

multiple tariffs and regulations.

This alliance, however, threatens to be short-lived. FTA talks with China and Japan are looming on the horizon, and may probably take root before the GSFTA matures. The opening up of markets to China and Japan, and perhaps in the not too distant future, other ASEAN nations, can lead to GCC petrochemical industries overtaking and bypassing Singapore entirely. GCC petrochemicals have enormous economies of scale due to the fact that the raw materials originate from the countries themselves. Would Singapore make concessions to play a more supporting role or compete directly for market share? Whether the GCC states are willing to compromise and cooperate for a share of the pie, or would like to reserve their trump cards for a winner gets all, the GSFTA would provide the first sign of their motives and play a role in the petrochemical future of the region.

Abu Dhabi Investment Authority



WELL-KNOWN TRADEMARK PROTECTION IN GCC COUNTRIES



**DR. MOHAMMAD
AL SHMMERI**
FIRST SECRETARY
MINISTRY OF
FOREIGN AFFAIRS
KINGDOM OF SAUDI ARABIA



A trademark is a name or a symbol given for a business or a specific product. In the field of international trade, it becomes a sort of a transnational vendor. Consumers tend to develop great confidence in some trademarks that may outweigh their trust in human experts. A well-known mark is a precious property that needs strong legal protection against infringement and imitation.

With the boom in international trade following the change in its structure in the early 1990s, the advent of the World Trade Organization (WTO), as well the scientific and technical advances in the advertising field, the concept of "well-known mark" has come to acquire the necessary attention in international conventions, national laws and judicial circles. Owners of trademarks have competed to gain the designation of well-known mark to obtain the distinctive protection bestowed upon such trademarks by this denomination. Such privileges include protection against any use by another business of an identifier or a mark that constitutes a reproduction or imitation of similar marks of goods or services, within or outside a certain territory. Such recognition of a well-known mark shall be granted even if such a mark has not been duly registered or used within these foreign territories. The protection can be extended on the basis of marketing fame and popularity among consumers. Protection can be granted on meeting certain conditions relating to the duration of the use of the trademark, the value associated with the trademark in the market, the degree of publicity and fame, the size of its sales in the international market, and sponsorship of some international events

such as the Olympics, the World Cup (football and other sports), and Formula One races. Examples of well-known marks are many, including the famous product brands of Lipton, Adidas and Coca-Cola. The well-known marks in the service sector include names such as Hilton, Visa, CNN and others. In the GCC countries, there are some widely-known trademarks that could be designated as well-known marks, such as 'Saudi Aramco', 'SABIC' in Saudi Arabia, Emaar in the UAE, and Al-Jazeera TV channel in Qatar.

The GCC states have joined the WTO and as such they are obliged to extend protection of trademarks in general and well-known marks in particular, in accordance with the Paris Convention for the Protection of Industrial Property and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In particular, Article 6 (bis) of the Paris Convention for the Protection of Industrial Property of 1967 requires the member states to provide the necessary protection to well-known marks. Also, articles 16 (2) and 16 (3) of the TRIPS agreement granted legal protection to well-known marks used in the field of goods and services. It stated that members shall take account of the knowledge of the trademark in the relevant sector of the public to grant the designation of a well-known mark. For instance, for the sports brand Adidas, it is enough that its mark is known to athletes, sports clubs and sports merchandise traders in the concerned member state in order to gain the designation of a well-known mark.

The national laws in GCC countries relating to patent rights have been affected by international agreements issued by the World Trade Organization (WTO). As all GCC states have become members of the WTO, their national laws have been adapted to the provisions of the TRIPS. Legislatures in GCC states have chosen between the expansion of protection and limitation thereof, according to the requirements of each country. While the Saudi Trademark Law, the Kuwaiti Trade Law, and the Omani Trademarks Law gave limited protection to well-known marks, the Federal law of trademarks in

the UAE, provided for a wider definition of the well-known mark and expanded its protection. In Bahrain and Qatar, the national laws are yet to provide significant protection for well-known marks.

Saudi Arabia

The Saudi Arabian law for the protection of well-known marks struck a reasonable balance between well-known marks registered within the Kingdom's territory and those which have not been registered there. The first category receives wider protection. The Saudi law does not allow the registration of trademarks similar to world-famous marks, even if they have not been registered in Saudi Arabia. The Saudi law forbids the registration of a trademark similar to the well-known mark if it is used to designate any non-identical goods or services, especially if such use is found to be detrimental to the exclusive owner of the well-known mark. As for the well-known mark that has not been registered in the Kingdom, it enjoys lesser protection, as the law forbids third parties to register trademarks for goods and services similar to the ones carrying the original well-known mark.

Article (2) J of the law prohibits the registration of marks identical with or similar to internationally known marks even if they are not registered in the Kingdom. The law prohibits the registration of signs identical or similar to marks already filed or registered by others regarding identical or similar products or services as well as signs whose registration for certain products or services would reduce the value of products or services of others.

Protection of a well-known mark that has not been registered in the Kingdom would be according to the following rules:

- If the well-known mark is not registered in the Kingdom, it would enjoy protection only for identical goods and services.
- If a well-known mark has been registered in the Kingdom,

it would enjoy protection against use of identical goods and services. Non-similar goods and services enjoy protection on one condition: the exclusive owner of the original mark must prove that such use of his mark on non-identical goods and services owned by others is detrimental to him.

The Saudi Arabian Trademark law used local popularity as a standard to decide legal protection for the well-known mark. The law prohibits registration of identical or similar trademarks to well-known marks in the Kingdom. A well-known mark for the relevant sector in the Kingdom will receive the due protection given to well-known marks, irrespective of its international reputation.

Kuwait

The Kuwaiti Trade law no (1) of 2001 on trademarks provided for the protection of well-known marks in Kuwait. Article 62 (5) of the said law stated that trademarks which may not be registered as such include: "The trademark identical or similar to an extent raising confusion toward famous trademark or



trade name in the state of Kuwait or constitutes a translation for it regarding the identical or similar goods or services of another project. The trademark may not be registered if it is connected with non-identical or different goods or services whenever its use may create the impression that there is a connection between them and the reputable trademark or trade name in a way that is detrimental to the owner of the mark.

So, the Kuwaiti law provided for wider protection of well-known trademarks, including those registered in Kuwait as well as those not registered for identical or non-identical goods and services. The focus here is more on the local popularity of the mark.

Oman

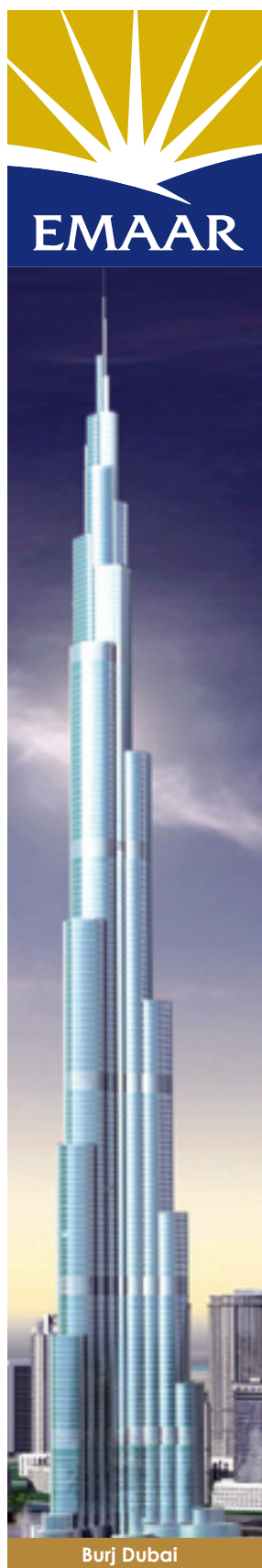
Article (2) 7 of the Omani law of Trademarks, Data and Trade Secrets and Protection from Unfair Competition stated that the following may not be trademarks nor may they be registered as such: "if the sign is identical with, or confusingly similar to, or constitutes a translation of a mark or trade name well known in Oman for identical or similar goods or services of another enterprises, or if it is well known and registered in Oman for goods or services which are not identical with or similar to those in respect of which registration is applied for, provided that, in the latter case, use of the mark in relation to those goods or services would indicate a connection between those goods or services and the owner of well known mark and that interests of the owner of the well known mark are likely to be damaged by such use."

This article shows that the Omani law considers local popularity of the trademark as the standard for granting protection. Protection of a wellknown mark is granted on the basis that a mark or a trade name is well known and registered in Oman for identical or similar goods or services of other enterprises. The law provides that if the use of the mark in relation to those goods or services indicates a connection between those goods or services and the owner of well-known mark, and that the interests of the owner of the well-known mark are likely to be damaged by such use, then protection must be denied in this case.

The United Arab Emirates

The UAE Federal Law No (37) of 1992 concerning trademarks stipulated that "the trademarks having an international goodwill beyond the boundaries of the mother country may not be registered unless authorized by the owner or by his official attorney."

This article exemplifies the idea of extensive protection of well-known marks. It adopted



the standard of international reputation and granted protection for well-known marks against any use by others of identical or non-identical goods and services, whether being registered or not registered in the UAE, and irrespective of whether the original trademark has been used or not. The law provided that the registration and protection of a well-known mark would be done irrespective of whether the protected marks are owned by persons whose countries are members of the WTO, or otherwise. The UAE law did not include any condition that UAE trademarks be given a similar treatment. Also, it should be noted that the law specified that the registration request should be authorized by the exclusive owner of the trademark, or by his official attorney.

Bahrain and Qatar

The Bahraini Legislative Decree No 10 of 1991 with respect to trademarks did not include special provisions regarding the protection of well-known marks. Also, Qatar's law no 3 of 1978, known as 'The Law of Trademarks and Commercial Indication' stipulated in article 2 that "Notwithstanding the provisions of international bilateral or multilateral conventions and agreements to which the state of Qatar is party, foreigners shall have the same rights under this law as nationals of the State of Qatar, provided that they are nationals or residents of states which grants the State of Qatar reciprocal treatment."

Bahrain and Qatar are obliged to protect well-known marks pursuant to their obligations under the TRIPS agreement, to which they are parties. The agreement obliges member states to adjust their national laws to its provision, and the reference to "international bilateral or multilateral conventions and agreements" may not be enough in this case. However, as the GCC states are working on a common law on trademarks, the two countries, Bahrain and Qatar, may wait and not make any adjustments in their national laws for the time being.

PUBLICATIONS

GCC Stock Markets: Managing the Crisis

The GCC stock markets witnessed severe corrections in 2006 which raised questions about how to cope with the crisis. This paper discusses the major factors that led to the price slump, namely liquidity driven overvaluations and herd behavior in a market that has been dominated by retail investors. Based on this analysis, factors are outlined that could lead to a more balanced future development of GCC capital markets, most notably a broader spectrum of asset classes, increased participation of institutional investors, stricter control of margin lending, and improvement of market infrastructure and corporate governance.



A Euro-Denominated Oil Bourse in Iran: Potential Major Force in the International System?

The paper discusses legal, political, and economic shortcomings of the planned Iranian oil bourse, which is regarded by some observers as a major threat to dollar hegemony. It deems it unlikely that the Iranian bourse project will be attractive to traders and take a large volume of sales away from established markets. Furthermore, it suggests that a number of elements tend to perpetuate the dollar's role as a reserve currency in the international system and that concerns over the dollar might be premature.



Diversification of the GCC Economies Analysis of the Preceding Decade: 1993 – 2003

This paper looks at economic diversification attempts in the GCC countries from 1993 to 2003. The analysis focuses on studying the terms and composition of

trade and changes to the GDP composition to determine if significant shifts are occurring in the countries' economies. Diversification successes do not lessen the dependence on oil as the main determinant of the economic well-being of GCC states. Diversification attempts, although bearing fruit in some instances, have, by and large, remained insufficient to effect real change. The oil boom in the last few years has given the countries a second chance to develop their economies in a more diversified fashion. However, major reforms need to be undertaken in order to further diversify the GCC economies and make them less dependent on oil and gas.



Information Technologies: Emerging New Tools for Residents' Activities in the Dammam Metropolitan Area, Saudi Arabia

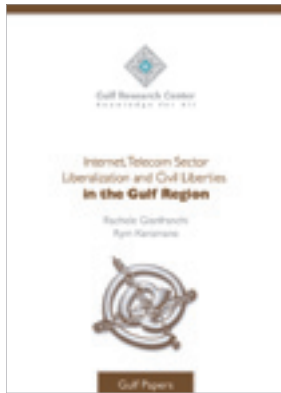
The recent dramatic increase in the use of information technology (IT) in daily activities by all types of urban actors in Saudi Arabia seems to have influenced the development of Saudi cities. Using a modified activity systems model and the Dammam Metropolitan Area (DMA) as a case study, this paper examines the effects on metropolitan development of residents' attributes – their activity types, location, patterns, and domains – as well as their use of IT tools and face-to-face interactions to accomplish these activities. The research finds that the use of IT tools by DMA residents in their daily lives has influenced the emergence of a 'virtual' DMA as well as the transformation of the actual DMA.



Internet, Telecom Sector Liberalization and Civil Liberties in the Gulf Region

The Gulf countries lag behind other Middle Eastern and North African (MENA) countries in Internet liberalization.

This study supports the idea that there is an important relation between the impact the Internet can have on democratization and civil liberties on the one hand, and governmental stances towards liberalization of the telecommunications infrastructure and competition in services on the other. The paper empirically verifies the relation between Internet diffusion and the voice and accountability indicator of the Kaufman, Kraay, and Mastruzzi governance index in its sample of 44 countries belonging to three regions including MENA. It identifies persisting MENA issues, such as abuses of dominance by the incumbent operator in the access market, and how content control policies have constrained the impact of the Internet on civil liberties.



CONSULTANCY SERVICE

Using the GRC's broad network of experts, the Gulf Research Center (GRC) offers consultancy services related to the Gulf Region for corporate houses and other institutions.



In March 2006, the GRC conducted a comprehensive study on "GCC-Asia Economic Relations" for the Japan External

Trade Organisation (JETRO), which is also a GRC corporate member. The JETRO report focused on the business and investment trends and opportunities for Asian companies in the GCC countries. It predominantly looked at China, India, Indonesia, Japan, South Korea, Malaysia, Pakistan, and Thailand. Supported by extensive data and graphs, the study also touched on existing trade relationships, the direction of trade, the Asian exports to the GCC countries and GCC exports to Asia, the energy relationship and energy contracts, as well as non-energy economic interests, especially banking and finance, construction, commerce, services, and human resources.

Other prominent ventures undertaken by the GRC include a study on the possibility of establishing a Center



for Economic and Social Policies in the Arab Countries (CESPAC), which was commissioned by the United Nations Development Program in 2005.

The feasibility study includes a survey of the current status of political, economic, and social studies in the Arab world, an outline of the various stages to be considered in the setting up of CESPAC, a description of the functional and administrative structures of the proposed Center, as well as a resource mobilization plan that will allow the CESPAC idea to become a reality. The study, spread over seven months, took its cue from the findings of the Arab Human Development Reports 2002 and 2003 on the economic and social situation in the region, and was aimed at developing new and additional institutional capacities focused on providing alternative strategies, comprehensive policy proposals, and sustainable political, economic, and social policies. According to the GRC Chairman, Abdulaziz Sager, "The center is qualified to undertake the proposed study due to its commitment to and experience in developing concrete and effective policy solutions for the challenges confronting the Arab world. Additional qualifications include the GRC's relevant areas of expertise and a broad network of experts that can be utilized in the work to be conducted."



As part of its expanding consultancy services, the GRC's highly skilled information technology (IT) division has developed a news portal for Al-Arabiya, which is one of Middle East's most

credible Arabic TV news channels. This financial portal, entitled Anews, has been designed to attract the members of the Arab community interested in getting updated financial news and stock market information from the Gulf region. Upon the successful development of the portal, Al Arabiya also awarded the GRC with its web hosting infrastructure consultancy. Al Arabiya and the GRC have also joined hands and agreed to work collaboratively on more upcoming projects, especially those related to IT.



Gulf Research Center

Knowledge for All

Based in Dubai, UAE, the Gulf Research Center (GRC) began its activity in 2000 as a privately-funded, non-partisan think tank, education provider, and consultancy specializing in the Gulf region.

The GRC produces recognized research from a Gulf perspective, redressing the current imbalance in Gulf area studies, where regional opinions and interests are underrepresented.

The GRC believes that the Gulf Cooperation Council has transcended the initial reasons for its establishment, to become a fundamental right of its citizens in the development of the region. The GRC seeks to further this belief by being an institution of distinction and innovative research that advances different aspects of development to ultimately benefit the people of the region.

187 Oud Metha Tower, 11th floor
303 Sheikh Rashid Road
P.O. Box 80758, Dubai UAE.
Tel. No.: +971 4 324 7770
Fax No.: +971 4 324 7771
Website: www.grc.ae
E-mail: info@grc.ae