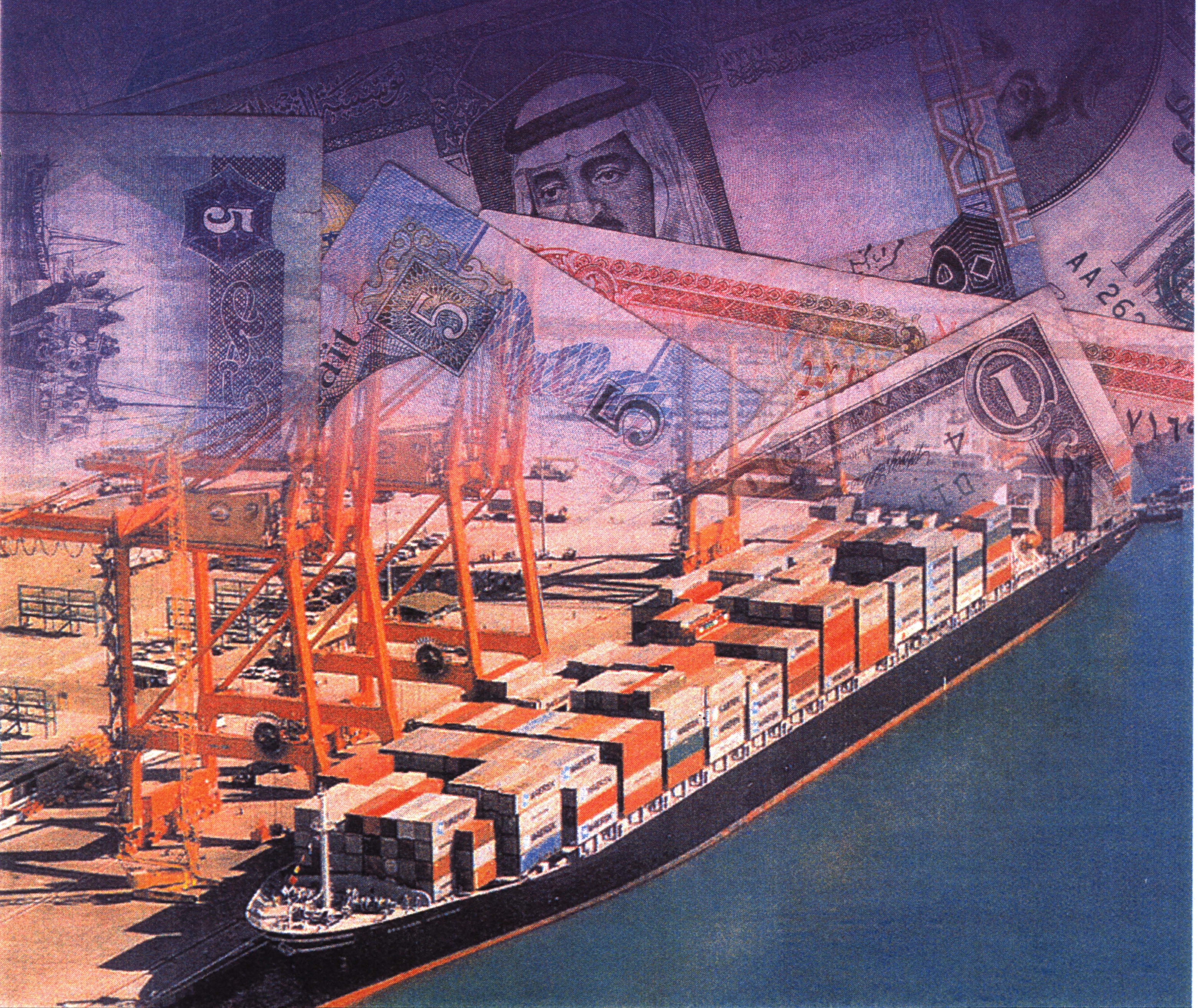
U.S.-GCC

BUSINESS AND ECONOMIC DIALOGUES: PROGRESS AND PROSPECTS

by Jan H. Kalicki



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FOREWORD

This special report addresses a diverse array of regional commercial and economic developments facing the member states of the Gulf Cooperation Council: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). It is to this region that, twice in the last 15 years, the United States has mobilized and deployed more of its armed forces than to any other place in the world.

Given the profound influence of the GCC on military and energy security, the GCC region is an important element of global economic growth and material well being. As such, the many changes this region has undergone in the last ten years have tremendous implications for U.S. policy in particular and global politics in general.

Globalization and Regional Integration

These changes have been particularly significant in the economic sector, as the member-states have come to grips with the imperatives and implications of economic globalization and regional integration. As part of their globalization strategy, the GCC countries have addressed and sought to accommodate to the changing international and regional environment and dynamics for trade, investment, and technology cooperation. Furthermore, the GCC countries have dramatically expanded the number of joint commercial ventures entered into between the member-states' private sector companies and their foreign business partners.

The nature, pace, and extent of ongoing U.S. commercial and economic interests in the GCC region have, in turn, been undergoing their own transformation as many of these same dynamics continually come into play in the determination and formulation of U.S. public policy. Lending a dynamic yet steady hand to the visionary and managerial side of these phenomena for an extended period until the mid-1990s was the late U.S. Secretary of Commerce Ron Brown. Secretary Brown made a defining difference in the composition and overall diversity in the GCC-U.S. business relationship.

The achievements registered to date also owe much to Counselor to the Department of Commerce Jan H. Kalicki, the author of this report on "The U.S.-GCC Business and Economic Dialogues: Progress and Prospects," and his able staff in the Department's Office of the Near East in the International Trade Administration. The attached report is an extension of Counselor Kalicki's thoughts on a recent trip to the region which was joined by members of his staff and Assistant Secretary of Energy for International Affairs David Goldwyn. On this interagency visit, Dr. Kalicki visited Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates in the spring of 2000 to promote American private sector commercial and economic interests as well as to co-chair the interim review session of the U.S.-GCC Economic Dialogue.

U.S. Department of Commerce a Leading Player

Dr. Kalicki brings a unique set of credentials and background to his position as a senior U.S. Government advocate in support of American business interests in the Middle East, and in the GCC region in particular. With regard to dealing with the policymaking challenges of furthering key U.S. foreign policy objectives in the Middle East, few people in government have had a first hand exposure and experience as extensive and relevant as he has had in both the Administration and in the Congress. In addition to serving as Counselor to the Department of Commerce, he is also the founding Director of its Policy Coordination Staff in the International Trade Administration.

Prior to joining the Commerce Department, Dr. Kalicki was a foreign service officer; served as chief foreign policy advisor to Senator Edward Kennedy; and was, most recently, a senior Vice President at Lehman Brothers. He was also Assistant to the President of Brown University and Director of the university's Center for Foreign Policy Development; and he has taught at Brown, Harvard, Princeton, and Georgetown Universities. Like many of the best among America's dedicated public servants, he has been exceptionally active in the work of leading public policy institutions in the private sector, including the Council on Foreign Relations, the Royal Institute for International Affairs in London, and the International Institute for Strategic Studies.

The U.S.-GCC Corporate Cooperation Committee and the Committee's Secretariat, the National Council on U.S.-Arab Relations, are pleased to publish this report. They do so in partnership with each other and America's friends and allies in the GCC region. The objective of both institutions is to contribute to the national and GCC-U.S. Bilateral Business and Economic Dialogues on the implications of trade and investment issues for U.S. policies in the Arab countries, the Middle East, the Islamic world, and the GCC region.

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The U.S.-GCC Business and Economic Dialogues: Progress and Prospects

by

Jan H. Kalicki

In mid-May, 2000, an interagency commercial and energy policy delegation, consisting of representatives from the Departments of Commerce, Energy, and State, visited with government and private sector leaders in Saudi Arabia, Kuwait, the United Arab Emirates and Qatar in the Arabian Peninsula. In Riyadh, the location of the GCC Secretariat, the delegation held meetings in preparation for the tenth plenary session of the U.S.-GCC Economic Dialogue, scheduled to take place in Washington in the fall of 2000.

The Dialogue, founded in the mid-1980s, is co-chaired on the U.S. side by Counselor to the Department of Commerce Jan H. Kalicki and Alan Larson, Undersecretary of State for Economic, Business and Agricultural Affairs. On the GCC side, it is chaired by the Deputy Minister of Finance of the Kingdom of Saudi Arabia, Dr. Jobarah Al-Suraisry, who is also the GCC's Coordinator General for Negotiations. The Dialogue is attended by representatives of each of the six GCC countries.

Over the past ten years, the Gulf countries have emerged as very important players in global politics. In addition to their significant strategic importance from a military and energy security standpoint, they have grown as significant participants in the global economy. While there has been considerable progress in strengthening GCC-U.S. cooperation in pursuit of regional peace and stability, we look forward to our continued efforts to further U.S. and GCC shared commercial and economic interests. The United States is very proud of its position as the single largest trading partner of the GCC, with last year's total trade volume amounting to over $24 billion. The U.S. Department of Commerce has welcomed the opportunity to contribute to the development of these important additional components of the broader GCC-U.S. relationship.

While there has been considerable progress in strengthening GCC-U.S. cooperation in pursuit of regional peace and stability, we look forward to our continued efforts to further U.S. and GCC shared commercial and economic interests.

Despite the positive accomplishments of U.S. business in the region, GCC and U.S. strategists and policymakers alike agree that significant obstacles remain. Both sides to date, for example, recognize the pressing need to improve the overall business environment in the region. However, the United States is heartened by developments in the following areas, which will contribute positively to the GCC's continued efforts to engage in the global economy, namely: trade, investment, intellectual property protection, energy investment opportunities, and regional economic integration.

Trade

The United States strongly believes that an important component of economic reform is participation in international trading regimes and adherence to the rules and obligations of such membership.

The United States strongly believes that an important component of economic reform is participation in international trading regimes and adherence to the rules and obligations of such membership. As such, it is heartening to note that four out of the six GCC countries – Bahrain, Kuwait, Qatar and the United Arab Emirates – are members of the World Trade Organization (WTO). The applications for admission of Saudi Arabia and Oman remain under active consideration, and we are very pleased with the progress made by these countries toward accession.

A major issue with regard to these two countries, as well as the other Gulf countries, is not just a matter of formal membership in the WTO. More important is the extent to which the members adopt and adhere to the WTO's rules with regard to liberalizing their international economic and trade relations. It is this aspect of WTO membership that is key to increasing a GCC country's access to international markets and to allowing greater international access to its markets. We are pleased to see that the disciplines required for WTO membership are already resulting in significant trade liberalization in the GCC countries, and we are confident that this trend will continue.

Investment

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In addition to welcoming the ongoing liberalization in the area of trade, the United States is particularly impressed by the new investment opportunities in the Gulf. We are very pleased with the policy developments related to investment initiated by many GCC governments, which amount to a veritable sea change in the GCC governments' outlook on investment.

More and more countries in the Gulf region agree that the terms and conditions of investment should, in general, be determined by investors, not governments. This new outlook is behind the trend in the Gulf countries toward removing laws that limit investment to a fixed percentage, and, also, toward eliminating the legal requirements for investors to retain the services of a national sponsor or agent.

Moreover, we are openly supportive of what we see as a regional trend toward liberalized legislation supportive of the broadest possible opening of the member-states' economies to greater private sector involvement. Among the sectors undergoing the greatest degree of reform to date are power-generation, desalination, telecommunications, cross-border banking, and franchising. Five or ten years ago, it would have been hard to believe that so much would be going on in the investment sector, which is so important to the GCC states' economic modernization and development.

Importantly, we can be confident that the liberalization trend is more than simply rhetoric. We are very pleased with the practical steps being taken on foreign investment legislation in Kuwait (where foreign investment has long been very limited), the promulgation of a new foreign investment code in Saudi Arabia in 2000, and continuing positive actions on investment incentives in Bahrain, Oman, Qatar, and the UAE. Indeed, there is ample evidence that the member-states are seriously committed to enacting into law the appropriate incentives to increase the level of foreign investment.

Indeed, there is ample evidence that the member-states are seriously committed to enacting into law the appropriate incentives to increase the level of foreign investment.

To this end, the forging of bilateral investment treaties (BITs) between the United States and each of the GCC countries is an option being discussed in Washington and each of the GCC capitals. There is already a BIT between Bahrain and the United States, and the Administration is keen to negotiate BITs with the other countries. Such treaties would be a very positive signal and would guarantee the rights of U.S. investors in the GCC countries, and, reciprocally, the rights of GCC investors in the United States.

Intellectual Property Rights

The protection of intellectual property rights (IPR) remains an ongoing issue in the discussions between the U.S. and GCC governments. The inability of various GCC states to adequately protect IPR in the past inhibited the transfer of technology and, in turn, substantially limited the overall value and quality of foreign investment in the GCC economies.

Among the more positive developments occurring in the past year was the enactment of a copyright law in Kuwait. This, in itself, was instrumental in successfully downgrading Kuwait's listing on the "Priority Watch List." The UAE was removed entirely from the "Watch List" in 2000, while Bahrain remained off the "Watch List" for the second consecutive year.

The positive indications of greater respect for IPR that these breakthroughs represent are self-evident. However, a lot more remains to be done, not just in the enactment of laws, but in the ensuing enforcement of legislation to ensure that intellectual property rights are protected.

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Energy

Among recent positive developments, some of the most exciting have been a series of very important openings in the energy sector of the member-states' economies. Kuwait's encouragement of international oil companies to participate in the further development of its oil sector, especially in the northern fields, has been greatly welcomed. Also, Saudi Arabia's decision to solicit proposals from investors eager to participate in the Kingdom's upstream gas and related downstream projects in power, petrochemicals, and desalination plants has been welcomed by many of America's leading oil and gas firms.

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In Bahrain, Oman, Qatar, and the UAE, there has been longstanding support for investor participation from other countries in their respective oil and gas industries. The $1.5 billion deal concluded in May 2000 between ExxonMobil and Qatar to expand Qatar's gas sector is but the latest in a series of long term U.S. private sector investments in one of the lesser known but rapidly developing GCC economies.

No less exciting have been the ongoing discussions and negotiations related to energy transportation arrangements. In this regard, the spring 2000 agreement between Kuwait and Qatar, whereby Qatar will help to meet Kuwait's near-term gas supply requirements, is being viewed positively as a possible precedent for future arrangements among other member states. Moreover, the recent launching of the Dolphin Project, which involves piping gas from Qatar to the UAE and on to Oman and, eventually and potentially, on to Pakistan and India, represents yet another multi-billion dollar long-term proposal designed to propel the energy component of regional economic integration forward.

Economic Integration

These and related developments bode well for increasing the prospects for heightened GCC economic integration in other spheres as well. In this regard, two trends warrant special consideration. One is the support for concrete regional economic arrangements in energy, pipelines, power, transportation, and other areas. The second is the pan-GCC agreement to establish a customs union by the year 2005.

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Each of these developments holds great promise for accelerating the pace by which the region's economies will represent one market and the extent to which the member-states' enhanced economic leverage will enable them to enter into mutually beneficial, long-term trade and investment relationships with their most important commercial partners. The U.S. government welcomes any opportunity to work with the member-states in these and other areas aimed at placing the region's commercial and economic relations with its major trading partners on a firmer footing.

U.S.-GCC Economic Dialogue

We welcome a number of the developments in the areas of trade and investment in the Gulf Countries. The United States is committed to the economic and commercial aspects of our broader relationship with the GCC. Toward this goal, we are proud of our continued work with the GCC through the U.S.-GCC Economic Dialogue, which is the principal forum through which our two sides can advance issues related to our non-energy commercial and economic relationship.

An important feature of the Dialogue has been the steadily increased participation of the U.S. private sector. In the May 2000 interim meetings in Riyadh, the latter were represented by the American Business Council of the Gulf Countries (ABCGC) on the U.S. side, and by the Gulf Federation of Chambers of Commerce and Industry on the GCC side. Beyond exchanging working papers designed to improve GCC-U.S. commercial policies, the two groups have committed to bilateral and multilateral meetings on a quarterly basis. They are also proposing to organize a U.S.-GCC Business Forum along the lines of the Trans-Atlantic Business Dialogue. Such developments go hand in hand with the inter-governmental meetings and are very important to both sides.

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The Dialogue continues to focus on a wide range of subjects, including taxation, specifications standards, and economic integration. Practical progress continues to be made on the issue of foreign exemption from taxation of income from shipping and aviation, although dual taxation agreements have not been reached. The U.S. interagency delegation was impressed by the GCC member-states' approach to the need to open up their markets, integrate into the global economy, and expand the role of the private sector.

Much of the progress in the Dialogue to date is the product of extensive discussions between the GCC member-states themselves and their ongoing dialogue with the U.S. government and organizations such as the National Council on U.S.-Arab Relations and member companies of the U.S.-GCC Corporate Cooperation Committee, the National U.S.-Arab Chamber of Commerce, the ABCGC, and the several bilateral business councils between the United States and individual GCC countries. All involved on both sides readily acknowledge that the highly competitive environment for international investment has given them a strong incentive toward reaching agreement on outstanding issues.

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The tenth plenary meeting of the U.S.-GCC Economic Dialogue is scheduled to convene in Washington in October 2000. Both sides look forward to as broad a participation as possible by members of the U.S.-GCC Corporate Cooperation Committee and other American business associations with interests in the region.

Future Challenges

We are heartened by the growing developments in the GCC countries toward liberalization in trade and investment, but significant obstacles do remain. One indication of this is the unfortunate reality that despite ample natural, financial, and human resources, the GCC continues to attract less than one percent of total global investment. This figure is extraordinarily low. It can be increased, however, as GCC member-states adopt economic changes and implement revised foreign investment codes, a process upon which they have already embarked. A strong platform for economic growth can be achieved if the private sector becomes more of a driver of the economies of the region and privatization of parastatal enterprises moves from rhetoric to reality.

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A second important challenge facing the GCC member-states arises from the growing contrast between their economic and population growth rates. While overall economic growth has remained at less than one percent in the region as a whole, the population growth rate in some GCC member-states is over three percent. With more than 50 percent of the population aged 18 or younger, large numbers of well-educated individuals will be entering the workforce and seeking challenging jobs that will enable them to contribute to the economy. This demographic "scissors effect" represents a potentially troubling scenario that truly needs to be addressed.

We believe the answer to this challenge lies in the development of the private sector of the GCC member-states as a means of ensuring their increased responsibility for future economic growth and stability. There can be no mistake about the enormity of what rides on the outcome. The strengthening of the private sector in the Gulf is of strategic importance to the United States. A strong American business partnership with an economically prosperous and stable GCC remains a pillar of overall U.S. foreign and defense policy.

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The Department of Commerce has worked productively to achieve objectives that are important for companies in the United States and the Gulf region. It welcomes suggestions that will enable it to work even more productively.

Dr. Jan H. Kalicki addresses a special seminar for business leaders at the National Council on U.S.-Arab Relations, Secretariat for the U.S.-GCC Corporate Cooperation Committee.

DISCUSSION

[***Editor's note***: *In the discussion period, Dr. Kalicki was joined by Mr. Dana Marshall, the Senior Advisor in the Office of the Counselor at the Department of Commerce, and, like Dr. Kalicki, a frequent participant in the U.S.-GCC Corporate Cooperation Committee's business seminars and the annual U.S. Mideast Policymakers Conference.*]

SAUDI ARABIA AND WTO ACCESSION

Question: When will Saudi Arabia accede to the WTO?

Response: The Kingdom will accede just as soon as it makes progress on the difficult steps that must be taken on the remaining issues. There has been substantial progress, but actions that pertain to certain goods and services still need to be taken.

It is unlikely that accession will occur in the next few months. Even so, both sides are continuing to strive to move the process forward. Senior officials of the Office of the U.S. Trade Representative and the Department of Commerce, for example, have recently discussed additional ways of helping the Kingdom. It is important to emphasize the point that the question of whether or not a country is ready for accession is not a function of politics. The outcome turns not on a political act, but, rather, on an economic decision to restructure the economy in order to reap the advantages and benefits that accompany adherence to the disciplines required of WTO membership. Saudi Arabia is very serious about trying to accomplish this economic restructuring, but it will need more time to finish the process.

Question: For purposes of acceding to the WTO, is the Saudi government expected to make a commitment to restructure the economy by issuing certain rules and regulations or by this plus something else: namely, compiling a lengthy record of actually implementing them?

Response: The United States wants a commitment to ensure that WTO rules regarding goods and services are, at a minimum, accepted and put "in the rulebook." It also seeks concrete evidence that other areas covered by the WTO, such as provisions for the protection and enforcement of intellectual property rights, have been or are rapidly being brought up to international standards.

Saudi Arabian officials are evaluating the effects that the various disciplines required for accession to the WTO will have on their economic development, particularly in light of the changes in foreign investment laws that they have already made. Even though there may not be a

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specific deadline, it appears that the country is moving forward.

Comment and Question: In March 2000, just before the meetings in Geneva at which Saudi Arabia's application to join the WTO was once again addressed, the U.S.-GCC Corporate Cooperation Committee and the National Council on U.S.-Arab Relations hosted a seminar on a range of issues pertaining to the remaining hurdles confronting Oman and Saudi Arabia in the quest to join the organization. At that seminar, U.S. government officials gave the strong impression that Saudi Arabia must make all of the changes demanded of it, *in advance,* if it hopes to accede to the WTO.

The officials were quite inflexible, for example, on the issue of rules, regulations, and practices regarding the question of insurance for goods and services. But the Kingdom, which is Custodian of Islam's Two Holiest Places, cannot be expected to change its rules and regulations pertaining to this sector for reasons owing to age-old religious prohibitions. Similarly, on the issue of religiously prohibited items, such as alcohol and pork, Saudi Arabian policymakers do not believe that even a monumental tax would deter someone determined to embarrass the Kingdom from trying to import such goods.

By contrast, a congressional staff delegation visiting Saudi Arabia in April, just after the Geneva meeting, found the tone of U.S. officials with regard to the near-term eventuality of the Kingdom's accession to the WTO to be much more optimistic and positive. What really happened in Geneva that made U.S. officials move from being pessimistic only days before the meeting to being fairly optimistic only a few days later?

No country will be forced to override very important and deeply felt religious restrictions, but it must undertake the disciplines that will permit the open market access that is in its interests.

Response: Clearly, there is still a need for further discussion on this issue. Membership in the WTO is a commercial enterprise, and there is often a desire by a country to try to enter the WTO without undertaking the disciplines that membership requires.

The United States strongly believes that these disciplines are in the best interests of those countries. Sometimes, it is very difficult to exercise the required disciplines. In this regard, there are no exceptions – it is often difficult for the United States to comply in some areas. There is, however, no reason why it would be impossible for a country with specific cultural and religious restrictions to overcome these difficulties. No country will be forced to override very important and deeply felt religious restrictions, but it must undertake the disciplines that will permit the open market access that is in its interests.

Question: With the recent fanfare in Congress relating to China, what are the prospects for Saudi Arabia getting into the WTO without Congress holding hearings on the matter?

Response: There is no indication to date that Congress will want to hold hearings on the question of Saudi Arabia's accession to the WTO. It is likely that Congress would recognize the Kingdom's accession as being a very important step. The House of Representatives voted on May 24, 2000, to authorize the extension of normal trade relations treatment to the People's Republic of China. Although the vote followed a very polarized debate, the outcome was encouraging.

It is not a given that Congress would want to become involved in this particular WTO accession issue. The case can be made that expanding normal trade relations and membership in the WTO, where trade ministers and lower level officials meet closely with their counterparts in other countries, is an alternative and arguably more effective way of promoting globalization and a more open system.

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ENERGY COOPERATION

Comment and Question: The Dolphin Project, which currently involves Qatar, the UAE, and Oman and may perhaps one day involve the Indian subcontinent as well, and the recent accord between Kuwait and Qatar, in which Qatar has agreed to supply gas for Kuwait's power needs, are two examples of heightened energy cooperation in the Gulf. Why is it that two of the GCC's founding member countries, Bahrain and Saudi Arabia, were not included in either of those arrangements?

To put the question in a slightly different context, what are the policy and economic implications of the fact that Qatari gas is the GCC region's cheapest and the most cost-effective to produce and transport? And, in this light, what kinds of investment and trade opportunities does the Department of Commerce envision for the American private sector in Bahrain and Saudi Arabia?

Response: Because of the state of Qatari relations with Bahrain and Saudi Arabia, that is a delicate question. There are developments that would not be appropriate to talk about publicly, but the Department of Commerce is encouraged by the increased interest in GCC energy cooperation with respect to gas supplies and pipelines as well as other transportation arrangements. Political progress will facilitate greater cooperation in the energy area.

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STANDARDS AND STANDARDIZATION

Question: Building code standardization has been an important consideration in talks between the United States and Saudi Arabia. What is its status?

Standards cooperation and standardization are very important means of ensuring both U.S. access to the GCC market and access to the international market for the GCC member-states as they diversity their economies.

Response: Standards cooperation and standardization are very important means of ensuring both U.S. access to the GCC market and access to the international market for the GCC member-states as they diversify their economies. U.S. standards have already been applied to 1,200 product areas in Saudi Arabia, and there is great potential for extending U.S. standards to other GCC member-states.

The United States and Saudi Arabia are working closely on this issue. An excellent cooperative relationship exists between the National Institute for Standards and Technology (NIST), an agency of the U.S. Department of Commerce's Technology Administration, and the Saudi Arabian Standards Organization (SASO). The Department of Commerce is eager to build on this relationship, which, in turn, has helped to facilitate standards cooperation with the other GCC member-states. The Department hopes to reach agreement on an extension of an agreement between NIST and SASO in July 2000.

NIST has been able to partially fund efforts to develop and implement building and fire code standards in Saudi Arabia. Certain codes have been developed at SASO using intellectual property on standards held by the International Conference of Building Organizations (ICBO), a private organization. ICBO has agreed to transfer these codes when it receives compensation.

Private sector discussions to find a solution to the funding problem are being actively pursued. They are led by the American Business Councils of the Gulf, representing the American private sector, and the Council of Saudi Chambers of Commerce and Industry, headed by its Secretary General. The objective of these discussions is to ensure that the funding needed to supplement the $300,000 already expended by NIST is raised in a timely fashion by the private sector.

It is very important that these discussions be successfully concluded well in advance of the proposed extension later this year of the existing standards agreement between SASO and NIST. Deputy Secretary of Commerce Robert L. Mallet has agreed to delay any final action that would have to be taken by NIST in order to allow time for the discussions to achieve positive results. Progress has already been reported.

The United States and the GCC also have an additional agreement on standards cooperation, the scope of which can be expanded and augmented. The United States would also support efforts to strengthen the GCC Patents Office as a means of strengthening patent and trademark protections.

GULF ORGANIZATION FOR INDUSTRIAL CONSULTING: INVESTMENT OPPORTUNITIES

Comment: The Gulf Organization for Industrial Consulting (GOIC) in Doha has its own series of publications inviting foreign investment in as many as 60 industrial projects worth billions of dollars. GOIC looks at the Gulf strategically, trying to ensure that there is a rationalization of investment in heavy infrastructure throughout the region.

Response: It is encouraging that GOIC is working on specific projects. The Department of Commerce would be glad to share its information on investment developments on a policy level.

PROSPECTS FOR THE ECONOMIC DIALOGUE

Question: What are the prospects for progress in the Economic Dialogue and what are the areas in which the Dialogue could move forward?

Response: The United States has informed its GCC counterparts in the Economic Dialogue of a series of actions on the issue of intellectual property rights that it would be useful to take before the next plenary meeting. It is hoped the GCC member-states will take further actions that will make it possible for the United States to either remove them from the Watch List after the next annual review or downgrade their listing.

Another area in which substantial progress can be made is on the issue of exempting shipping and aviation income from taxation. Three out of the six GCC countries have already exchanged notes with the United States on this subject. Because it requires only the exchange of diplomatic notes, not ratification, the United States and the GCC member states have agreed to strive to settle that issue by October 2000.

The United States would also like to open negotiations to conclude bilateral investment treaties (BITs) with the remaining five GCC states. It would also be willing to provide GCC member-states with assistance on infrastructure projects for regional integration. Customs is one area in which such assistance could be offered.

Finally, the United States advocates further liberalization of visa procedures. Most of the GCC member-states have already started this process. In the case of Saudi Arabia, which has special specific circumstances, the process has been more difficult. The Kingdom has already adopted rules for a two-year multiple business visa, but the rules have not been implemented as quickly as expected, so the United States and the Kingdom have discussed ways in which progress on that issue can

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be made. Ideally, it is hoped that a GCC-wide business visa could be established as soon as possible. This would send a signal that the Gulf is open for business and investment opportunities.

ELECTRONIC COMMERCE

Electronic commerce provides opportunities for businesses and support for small- and medium-sized entrepreneurial development, which would be of great benefit to the GCC region as a whole.

Question: Electronic commerce is a rapidly developing field in the United States and around the world. What are the prospects for the promotion of electronic commerce in the Gulf?

Response: There is a great deal of interest in electronic commerce. Internet service providers are found throughout the region, although, to date, there has not been as large a penetration of personal computers as can be found in some other areas of the world. Electronic commerce provides opportunities for businesses and support for small- and medium-sized entrepreneurial development, which would be of great benefit to the GCC region as a whole.

The U.S. interdepartmental delegation made progress on the issue of electronic commerce during its visit to the region. It presented to its GCC counterparts a joint statement on electronic commerce that the United States had previously signed with other countries. The statement spelled out the preconditions the United States believes are necessary for the healthy development of electronic commerce and all that derives from it. It is a model for an agreement that could be signed with GCC member-states in a future plenary session of the GCC Economic Dialogue and could also serve as the basis for an agreement between the GCC itself and the United States.

The United States has developed a model for an agreement that could be signed with GCC member-states in a future plenary session of the GCC Economic Dialogue and could also serve as the basis for an agreement between the GCC itself and the United States.

Question: Saudi Arabia will sponsor a conference in London this summer, in which it will publicize and promote the new investment code that it has established. Will there be a similar conference in the United States?

Response: There definitely should be. The preparation required for such a conference will help the Kingdom to clarify the new investment opportunities created by reform of its foreign investment laws. The reforms will facilitate Saudi Arabia's attempts to diversify its economy and attract new investor countries.

There are a number of countries that must modernize the way they control foreign investment. Reducing limitations on such investment and changing the requirements on the use of indigenous agents by foreign investors are just two examples of reforms that will lessen the barriers to investment. All the GCC countries have heard the message on this issue and are in the process of enacting and implementing reforms to remove this impediment to the inflow of foreign funds.

TRAINING/HUMAN RESOURCE DEVELOPMENT/ LABOR INDIGENIZATION

Comment and Question: One of the main impediments to American and other foreign investment in Saudi Arabia has been the absorption of costs for training local workers. These costs have posed a problem for companies investing in the Kingdom by negatively affecting their rate of return. What is the status of this disincentive to foreign investment?

Response: It is still a problem. Much more needs to be done. There must be training, and training of a nature that is relevant to the jobs that are available. Both the United States and the Saudi Arabians are emphasizing this point. It remains an area in which the private sector will more and more be expected to be a critical intermediary.

The Department of Commerce would welcome any suggestions or proposals from the private sector that would help orient the manpower system toward meeting future investments that are coming online. The private sector should make it a priority to present suggestions to the full plenary session of the U.S.-GCC Economic Dialogue in October 2000.

Comment and Question: About ten years ago, a list of what it would take to increase trade between the United States and Saudi Arabia was developed in Jeddah. The issue of who would absorb training costs came up at that time. Because foreign investment would increase the wages of workers, companies wanted the investors to pay for the training. Couldn't the U.S. government interest Saudi Arabia in starting vocational schools to train workers? And couldn't industry assist the investment process?

Response: The concept of training, along with globalization and e-commerce, is becoming a watchword. There was a great deal of discussion on this issue at the U.S.-GCC Corporate Cooperation Committee and the National Council's U.S. Mideast Policymakers Conference at the Virginia Military Institute in Lexington, Virginia, in 1999. Because virtually all of the GCC member-countries are experiencing per capita economic growth rates that are dropping, the need for training will remain an important problem for some time.

Although high oil prices have sometimes helped alleviate economic problems, their fluctuation poses immense difficulties for economic planners and those with fiscal responsibilities. The GCC member-countries understand that they cannot remain "oil or oil and gas economies" anymore. The indigenization training programs underway throughout the region are aimed at rectifying that situation.

One part of the Economic Dialogue should be devoted to ascertaining what can be done commercially on the training side. The GCC coun-

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tries are not poor and, in comparison to most other nations, they do not need a lot of financial or other economic assistance. It may simply be that the United States should use its good offices to convene some companies that might be interested to take on the challenge of meeting the human resource development needs of the GCC economies as a project laced with prospects for mutually beneficial results.

Mr. Dana Marshall

Question: Along these lines, could the U.S. government sponsor some sort of training center in Saudi Arabia similar to the way the hotel management faculty of Cornell University sponsors a school there?

Response: There are American universities that are interested in vocational training already involved in Saudi Arabia. There are many other vocational courses offered beyond the hospitality courses of Cornell University.

Comment and Question: There is a tendency for many of the players along the local personnel chain to blame others for the fact that the indigenous work force is not adequately trained or is insufficient in numbers. To begin to remedy this issue, some host countries have begun to experiment with various gimmicks, such as making visas more costly in order to make it less attractive to bring in contract workers and third country nationals from overseas, with a view to providing more of an incentive for local employers to train indigenous labor. Making mandatory health insurance for the foreign labor force is another device that can increase costs for the employer. Thus far, these gimmicks have met with limited success and are in need of fine-tuning.

Offloading in Jeddah

Control over the issue of training in some GCC member-states now resides in the Ministries of the Interior rather than, as might logically be expected, and was the case in the past, the Ministries of Labor and Social Affairs. In the case of Saudi Arabia, for example, it is Prince Naif who is the head of the Supreme Commission tasked with addressing the issue of training and enhancing employment prospects for the Kingdom's citizens. The Ministry of the Interior in the UAE is also increasingly responsible for this issue. UAE high school and university graduates are assigned a caseworker who remains in close contact until the graduate finds a job. The implication is that failure to provide jobs to large numbers of people is ultimately a matter which could possibly impact negatively on a country's stability and security.

It is important to note that, in the late 1970s and early 1980s, the United States administered a substantial vocational training program with Saudi Arabia called VOCATRON. It helped set up vocational and training schools at more than a dozen sites throughout the country. Although many students enrolled, they recognized after graduation that there were myriad government programs that would assist new entrepreneurs in obtaining low cost investment loans designed to help them open a business. As a result, the majority of the vocational graduates set up their own vocational training companies and then employed Indians, Pakistanis, Sri Lankans, and others, thereby defeating the strategic purpose of their own vocational training.

It is necessary, therefore, to benefit from the lessons already learned. Would it not be beneficial also to seek models in other countries, such as Singapore, which was beset with this challenge two decades ago but seems to be overcoming it? Does it not say something significant that, in 1999, tiny Singapore attracted twice the level of foreign direct investment of all GCC countries combined?

Response: A model might also be found in the practices of individual states of the United States in attracting investment. Some states finance training for employees if a foreign company invests there. South Carolina, which was not a state associated in the past with auto manufacturing, now produces the BMW Z3 roadster. Many South Carolinians are working in the auto plant making much better wages because of their training than they made previously in the textile mills.

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Comment: Two organizations involved in training should be noted here. AMIDEAST, a non-profit organization that provides educational and training opportunities throughout the Middle East, operates in eleven different countries in the region. Working with the Agency for International Development (AID), it has established a professional resources center that provides training for people in-country. It seeks funding from multinational companies that have a vested interest in this kind of training.

ANERA, which is also based in Washington, D.C., is involved in training and human resource development outside the Gulf. Focusing mainly on the polytechnic and community college level, its projects are also supported by AID funds. ANERA has a project in information technologies in Palestine, Jordan, and Lebanon that trains software engineers. So far, all of the funding for that project is from the private sector.

SEEKING SOLUTIONS

Department of Commerce: Since the National Council's 2000 U.S. Mideast Policymakers Conference (MPC) will take place a few weeks before the Economic Dialogue, the issue of training could be explored there. For example, the Conference might try to determine the extent to which foreign companies already in the Gulf train indigenous labor. It might also want to examine what the GCC member states are prepared to do in the area of funding indigenous training programs as a means of making themselves more attractive sites for investment.

It is important to continue to think more broadly beyond the government-related solutions. For example, organizations like the U.S.-GCC Cor-

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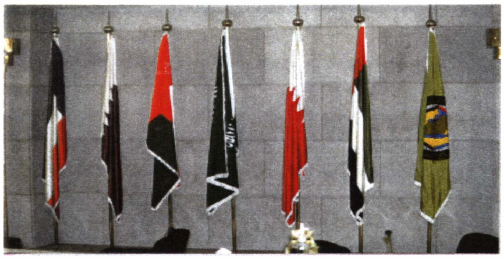
porate Cooperation Committee and the National Council on U.S.-Arab Relations do not have an institutional relationship with AID or any other U.S. government agency. Yet, despite this, they provide an important service when they work with their contacts in the GCC member-states on these and other issues relating to the region's ongoing modernization and development.

Fortunately, all of the GCC countries, cognizant that they have some of the highest population growth rates in the world, are keenly aware of the long-term demographic challenges they face. It is also fortunate that, based on the interaction of the U.S. interagency commercial and energy policy delegation with senior officials in the GCC member-states, both sides agree that the time is ripe for achieving solutions to the kinds of challenges noted and discussed in this seminar.



National flags of the GCC Member-Countries
and the GCC Secretariat

About the Author

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Hon. **Jan H. Kalicki** is Counselor to the U.S. Department of Commerce, specializing in international trade and investment, with responsibility for the Middle East, the New Independent States, and other emerging markets.

Dr. Kalicki is also the founding director of the Planning and Coordination Staff newly established in the Department's International Trade Administration. In addition, he is the White House's Ombudsman for Energy and Commercial Cooperation with the New Independent States (NIS).

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Dr. Kalicki was Chief Foreign Policy Advisor to Senator Edward M. Kennedy (1977 to 1984), a Member of the U.S. State Department's Policy Planning Staff under Secretaries of State Henry Kissinger and Cyrus Vance (1974 to 1977), and a U.S. Foreign Service Officer (1972 to 1974).

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