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The Gulf States: Changing Trade Patterns [redacted]

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A Research Paper

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The Gulf States: Changing Trade Patterns [redacted]

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A Research Paper

This paper was prepared by [redacted] Office of Near Eastern and South Asian Analysis, [redacted]

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Comments and queries are welcome and may be directed to the Chief, Persian Gulf Division, NESA, [redacted]

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The Gulf States: Changing Trade Patterns 25X1

Summary

Information available as of 4 November 1988 was used in this report.

Trade continues to be the lifeblood of the Gulf Cooperation Council (GCC) states—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—and these countries remain a large and profitable market for world trade, despite the sharp falloff in oil revenues since 1981. These states consume 2 percent of world exports and supply 23 percent of non-Communist oil imports. Their dependence on foreign trade probably will remain high because of the growing gap between domestic demand and the ability of regional economies to produce sufficient levels of consumer and industrial goods and services. 25X1

The most significant trend in the Gulf states' trade has been the rapid decline in their trade surpluses during the past seven years. The trend is toward greater trade parity, both with developed countries and LDC suppliers. The GCC's large trade surplus with Japan has fallen by 60 percent since 1981. Merchandise trade—excluding military deliveries—with Communist states remains small and will continue to be limited by a lack of mutually beneficial trade needs. The GCC states have run a small trade deficit with Communist states for most of the 1980s. 25X1

The US trade position with the GCC states has eroded in recent years, and the United States is not well placed to take advantage of trade opportunities in the area while postwar reconstruction begins in Iraq and Iran. The US trade balance with the region fell to a $1.5 billion deficit last year, and the US share of regional imports declined from 21 percent to 15 percent between 1982 and 1987. At the same time, US imports of GCC oil have increased substantially. Nevertheless, preliminary data for the first quarter of calendar year 1988 shows an improvement in US exports to the GCC states, most likely because of the change in the value of the US dollar against other major currencies since 1985. 25X1

Shifts in the direction and mix of regional trade with the rest of the world since the beginning of the decade have been broadly influenced by relative price changes, national income levels, changes in development priorities, and the Iran-Iraq war. Income levels and development priorities have moved domestic demand in favor of private consumption and toward reduced purchases of capital goods and larger purchases of services. The dislocation of trade with the rest of the world caused by the Iran-Iraq war is likely to fade as the northern GCC states obtain most of the reexport trade associated with anticipated multibillion-dollar reconstruction efforts in the two belligerent states. 25X1

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The concentration of GCC states' export trade with Western Europe and selected East Asian countries probably will continue, along with the shift toward the export of greater volumes of refined petroleum products. Exports of refined products give producers more of the profit associated with the end use of oil products. In addition, most GCC states are moving into downstream oil marketing operations. As these countries establish unique foreign market niches, the volatility of domestic oil earnings probably will be reduced. This movement downstream also could result in significant control over selected segments of foreign petroleum markets. 25X1

The trend toward greater diversification of imports also is likely to continue. Lower revenues have made local economic planners price conscious, and the diffusion of technology among world producers has provided a broader source of supply in recent years. Technocrats have assumed a growing influence in domestic economic decision making and appear to be more rigorous in their choice of suppliers. They are more likely to base trade decisions on competitiveness and efficiency rather than past commercial or political allegiances. 25X1

Import diversification is likely to continue to be most pronounced in the area of military imports. Restrictions on US military sales to the region and a growing interest among the Gulf states in diversifying their sources of military supply have caused the direction of arms purchases to shift toward West European and Communist suppliers. The GCC states signed $5.2 billion in military purchase agreements in calendar year 1987. The US share of this large market segment, however, declined by a quarter in the past four years compared with the period 1980-84. Unless this deterioration in US military trade with the GCC states is reversed, Washington may lose influence over the disposition of regional military materiel—Washington has a say in how US-origin arms are used—because the majority of new equipment will be purchased from non-US sources. 25X1

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Scope Note

The trade patterns of the Gulf Cooperation Council states have undergone significant changes in both direction and composition as a result of fluctuations in currency values, national income levels, evolving development strategies, and the influence of the Iran-Iraq war. The area remains important in international trade because of both the GCC states' continued high level of imports and their large petroleum resources. This paper explores the evolution in trade patterns during the 1980s and the effect of variables in the trade equation on commercial relationships and projects changes in regional trade patterns. It assesses the impact of these trends on US security and commercial interests in the region. 25X1

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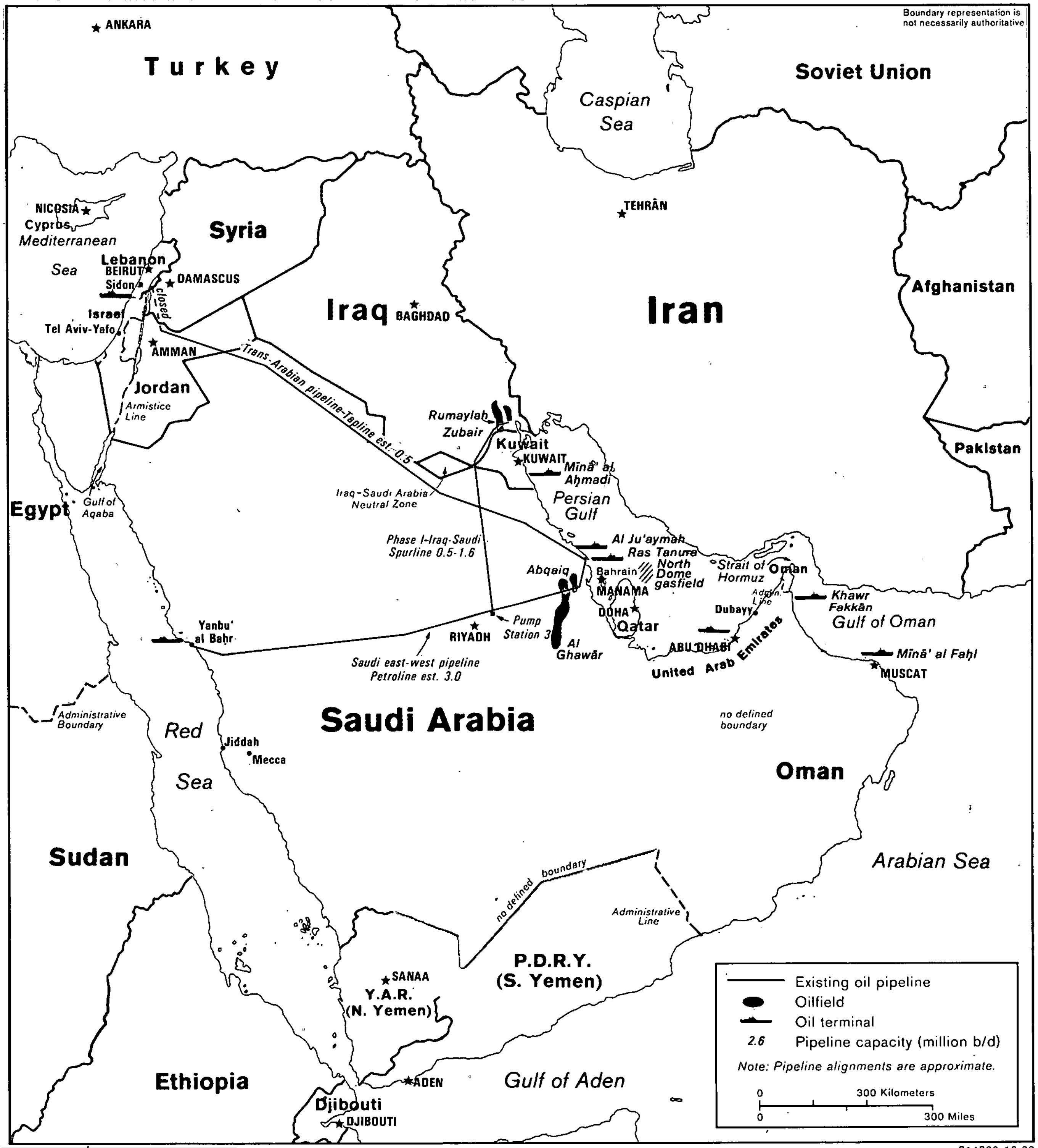
Figure 1
The GCC States and Selected Middle East Oil Facilities



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The Gulf States: Changing Trade Patterns 25X1

The Gulf Cooperation Council (GCC) states remain dependent on foreign trade, although there have been changes in the composition and direction of regional trade patterns over the years.[1] The rapid pace of Gulf state development during the last 15 years has created a large demand for foreign goods and services. Merchandise imports increased from $1.6 billion in 1970 to almost $58 billion by 1982, before declining to $34 billion last year. The GCC states still consume 2 percent of free world exports. During the past 18 years, demand for services escalated sharply and now top $30 billion annually. This demand was financed by an even more dramatic increase in Gulf state exports—crude oil and refined petroleum products. Their vast oil reserves make them an important target of world traders. Despite rising oil production outside the Persian Gulf, the GCC states still control 49 percent of proved oil reserves and supply 23 percent of free world oil imports. 25X1

The Gulf Cooperation Council as a Trading Bloc

Although some of the Gulf Cooperation Council's most significant achievements have been in the economic sphere, its members have yet to become a cohesive trading bloc. So far, they have established a framework for increased commercial ties, taken steps to link transportation and communication networks of the member states, and implemented policies to eliminate obstacles to the free movement of capital and labor among GCC states, according to US Embassy reporting. The GCC has not responded as a body to the soft oil market, however, and has only recently established a unified front to negotiate petrochemical trade quotas with the EC, Japan, and the United States. 25X1

We believe the greatest obstacles to broader GCC trade cooperation are political. Each state is suspicious of the actions and intentions of the others, creating tensions that will inhibit cooperative efforts over the next several years, according to Embassy reporting. Although they recognize the benefits of cooperation, GCC governments fear a loss of individual influence and national sovereignty; in particular, the smaller states are wary of Saudi attempts to dominate them. Although the smaller GCC states are beginning to act more aggressively to protect their individual interests, we believe that the Saudis will continue to dominate the Council and to use the GCC to advance Riyadh's agenda of commercial arrangements. 25X1

Factors Affecting Regional Trade [2]

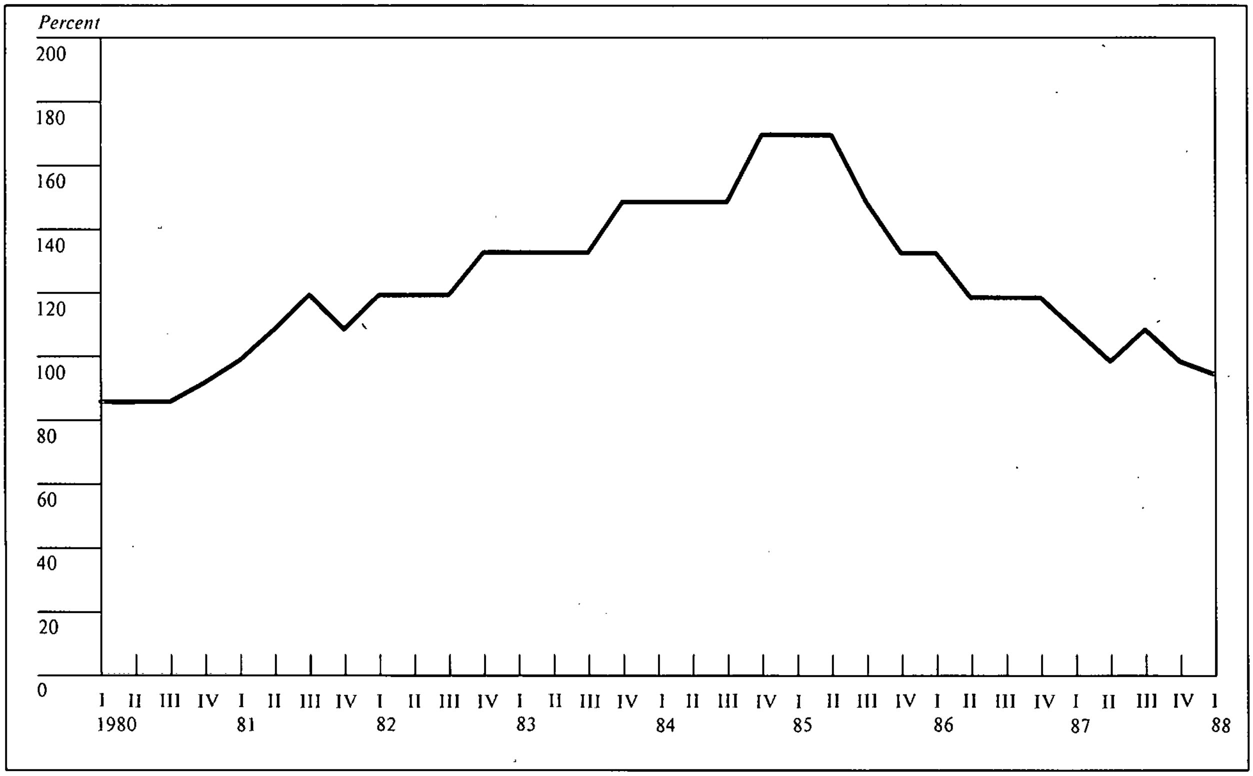
Liberal Trade Policies

Several key variables shape the scope and direction of GCC trade. The trade policies of the GCC states are relatively liberal compared with other developing countries such as Algeria, India, and Pakistan. This openness to international commerce has paved the way for the extraordinary growth of regional trade since 1970. Few items are banned, and exchange restrictions are not a constraint, according to US Embassy reporting. This stems from the coincidence of ample supplies of foreign exchange and economies dependent on imports for development. Tariffs are used to foster the growth of selected domestic industries but are not a serious obstacle to trade with the region. Since the early 1980s all GCC states have moved toward a unified system of trade regulations to expedite commerce and development. Most states, however, do require that trade be channeled through locally owned agencies. 25X1

[1] The states of the Gulf Cooperation Council include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. 25X1

[2] Unless otherwise stated, all trade data used in this report are derived from International Monetary Fund reporting. 25X1

Figure 2
Trade Weighted Exchange Rate of GCC Currencies, 1980-88



[a] Index of the amount of goods that can be purchased with each dollar of oil earnings weighted for each country's six major trade partners.

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Currency Fluctuations

Fluctuations in the value of regional currencies have had a pervasive impact on GCC trade volumes and partner shares. Between the period 1978 and midyear 1985, the purchasing power of local currencies increased by 70 percent against those of major trade partners before falling to slightly below the 1978 level in the first quarter of this calendar year. Local currencies, with the exception of Kuwait's dinar, are pegged to the US dollar and have largely followed trends in its value. We estimate that a 1-percentage point change in the value of local currencies relative to those of major trade partners will result in an equal-percentage-point change in the amount of real GCC imports, although the change will not take effect for about two years.

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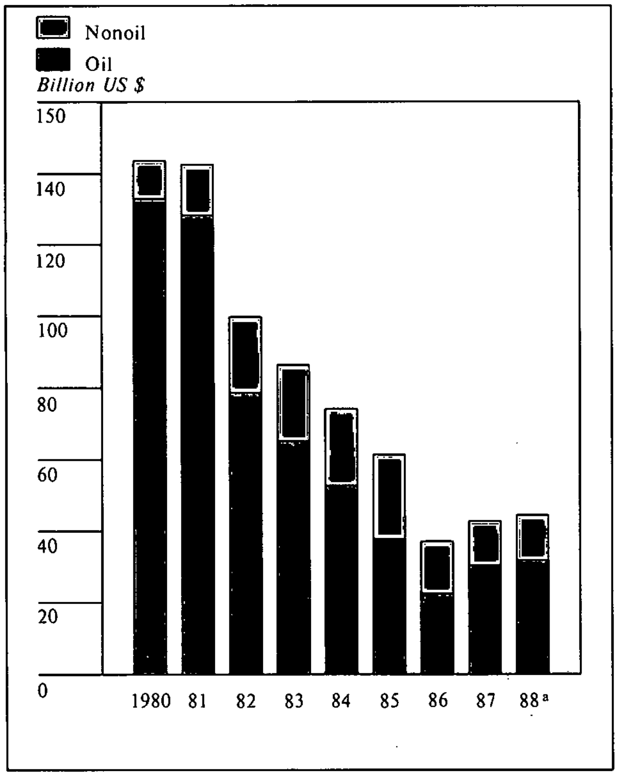
Figure 3
GCC Oil and Nonoil Revenues, 1980-88



[a] Projected

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National Income Levels

Academic studies suggest that national income levels help determine import volumes, and the GCC states are no exception. Their experience has been unusual, however, because since 1972 a 1-percent change in GDP has produced a greater-than-1-percent change in imports. This has been largely a consequence of the rapid rise and fall in the price of crude oil without a corresponding change in overall levels of real national productivity. As a result, regional economies almost doubled their dependence on foreign suppliers between 1972 and 1983. GCC governments have attempted to maintain import levels relative to GDP since oil prices began to weaken in the early 1980s, but their efforts have been frustrated by rising budget and foreign payments deficits. In 1988 imports as a share of national income appear to have leveled off at about 24 percent of GDP, nearly 12 percentage points below the 1983 peak, indicating both the degree of austerity and the reduction in dependence on foreign suppliers that has occurred. 25X1

Governments have been the engine of growth and development in GCC economies since oil revenues began their rapid rise in the early 1970s. The falloff in imports as a percent of GDP is directly traceable to the reduction in government revenues and spending. Although private consumption has increased and remains high, the private sector has not shown the dynamism required to sustain growth—and import demand—without heavy government subsidies, according to US Embassy reporting. Moreover, work by an independent contractor shows that local credit is a key determinant of demand and is directly related to levels of government spending. 25X1

Development Priorities

Economic development priorities in the GCC states have substantially altered import levels and the composition of regional trade. Development plans in the region show a steady decline in infrastructure spending over the past eight years and a greater emphasis on human resources and social development. The change is especially marked in Saudi Arabia, where the government has reversed the relative share of development spending on infrastructure and social programs in the current Fourth Development Plan, compared with the first five-year plan, according to US Embassy reporting. The impact on trade is visible in the reduced imports of manufactured goods and machinery and in the shift to service imports. Overall, we estimate that shifting development priorities have accounted for about 14 percent of the change in trade volumes since 1978 and in the persistence of large net service deficits. 25X1

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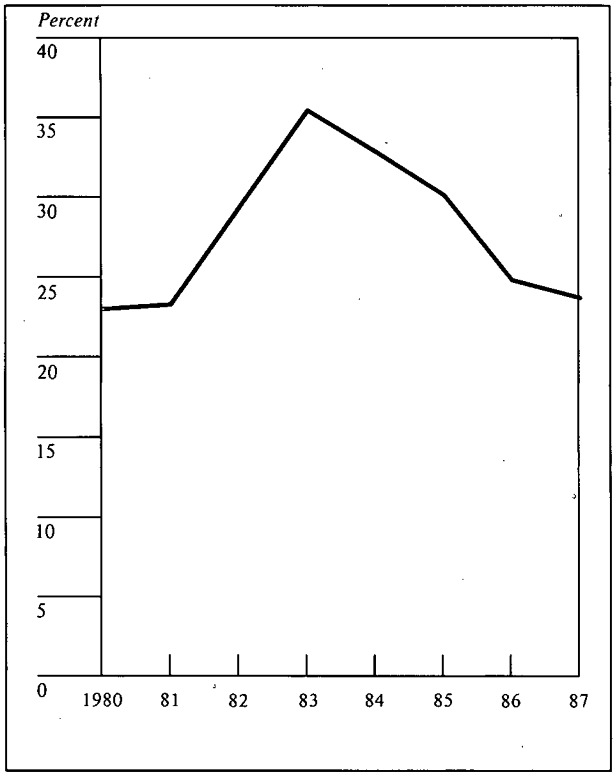
Figure 4
GCC States: Average Propensity to Import, 1980-87



[a] Average propensity to import is the ratio of real imports to real gross domestic product. It measures the relative reliance of an economy on foreign trade.

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World Trade and Technology

Increases in the volume of world trade and technology have not had a discernible effect on GCC trade levels but probably have influenced the relative trade shares of several of the GCC trade partners since the late 1970s. The availability and variety of goods as well as sources of supply often improve with increases in world trade values—up 40 percent in real terms since 1980. Moreover, change in technology over time influences the relative cost and quality of goods. US Embassy reporting suggests that several GCC states have turned to Japan and the newly industrializing Asian countries of Singapore and South Korea, as well as Taiwan, for oil and gas technology previously available only from Western companies. GCC states have also changed their supply sources for some farm equipment, electronic goods, and transportation equipment because of the evolution of relative technology. [redacted] 25X1

The Iran-Iraq War

The Iran-Iraq war profoundly affected the composition and direction of GCC trade. Since 1980, imports of military equipment have increased in volume as well as a percent of trade in response to the threat of Iranian aggression. Accelerated Iranian and Iraqi attacks against nonbelligerent shipping caused the lucrative reexport trade previously handled by northern Persian Gulf ports to move south to the United Arab Emirates—especially Dubayy—and Oman. [redacted] 25X1
[redacted] the reluctance of some 25X1
shippers—especially Japanese merchantmen—to sail to Kuwait and Saudi Arabia caused the Gulf states to route about a third of oil exports to the Red Sea by pipeline or to ports outside the Strait of Hormuz for transshipment to foreign tankers. The higher risk attached to Gulf oil supplies caused by the war contributed to the development of non-GCC oil resources and the diversification of oil suppliers by many GCC oil customers. [redacted] 25X1

Trade Dynamics

Overall, changes in currency values, lower oil income, new development priorities, and the Iran-Iraq war have taken a heavy toll on the balance of payments of the GCC states. Combined export receipts fell 1.5 times faster than imports from their peak in 1982. 25X1
The drop in the number of expatriate workers and a commensurate reduction in worker remittances during the period, coupled with reduced demand for services in the oil sector, helped cut the large net services deficit by about a half. The burden, however, has not been evenly distributed among the six states. Kuwait and the United Arab Emirates have maintained large, though declining, current account surpluses. Saudi Arabia, Qatar, and, to a lesser extent,

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Table 1
GCC States: Current Account Balance, 1982-88 [a]

Billion US $

	1982	1983	1984	1985	1986	1987	1988 [b]
Current account balance	21.7	−5.4	−3.1	0.1	−5.4	−0.9	−1.5
Trade balance	57.8	29.4	28.4	25.0	11.5	17.7	18.1
Exports (f.o.b.)	115.5	83.2	76.6	63.5	44.6	51.7	53.2
Oil	109.3	76.9	70.2	57.5	38.6	44.1	45.3 [c]
Nonoil	6.2	6.3	6.3	6.0	6.0	7.9	7.9
Imports (f.o.b.) [d]	57.7	53.8	48.1	38.6	33.1	34.0	35.1
Net services	−36.2	−34.8	−31.6	−24.9	−16.8	−18.6	−19.6

[a] Because of rounding, components may not add to the total shown.
[b] Projected.
[c] Assumes combined oil exports of 7.6 million b/d at $16 per barrel.
[d] Includes military imports.

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Table 2
Current Account Balances of the GCC States, 1982-88

Billion US $

	1982	1983	1984	1985	1986	1987	1988 [a]
Total	**21.7**	**−5.4**	**−3.1**	**0.1**	**−5.4**	**−0.9**	**−1.5**
Bahrain	0.6	0.2	0.2	0.3	0.0	0.2	−0.1
Kuwait	4.9	5.3	6.4	4.8	5.3	4.4	4.7
Oman	0.5	0.5	0.3	0.1	−1.0	0.8	0.3
Qatar	1.1	0.4	0.9	0.8	−0.2	−0.1	0.0
Saudi Arabia	7.6	−17.1	−18.4	−12.9	−11.9	−9.6	−9.6
United Arab Emirates	7.0	5.3	7.5	6.9	2.4	3.8	3.2

[a] Projected.

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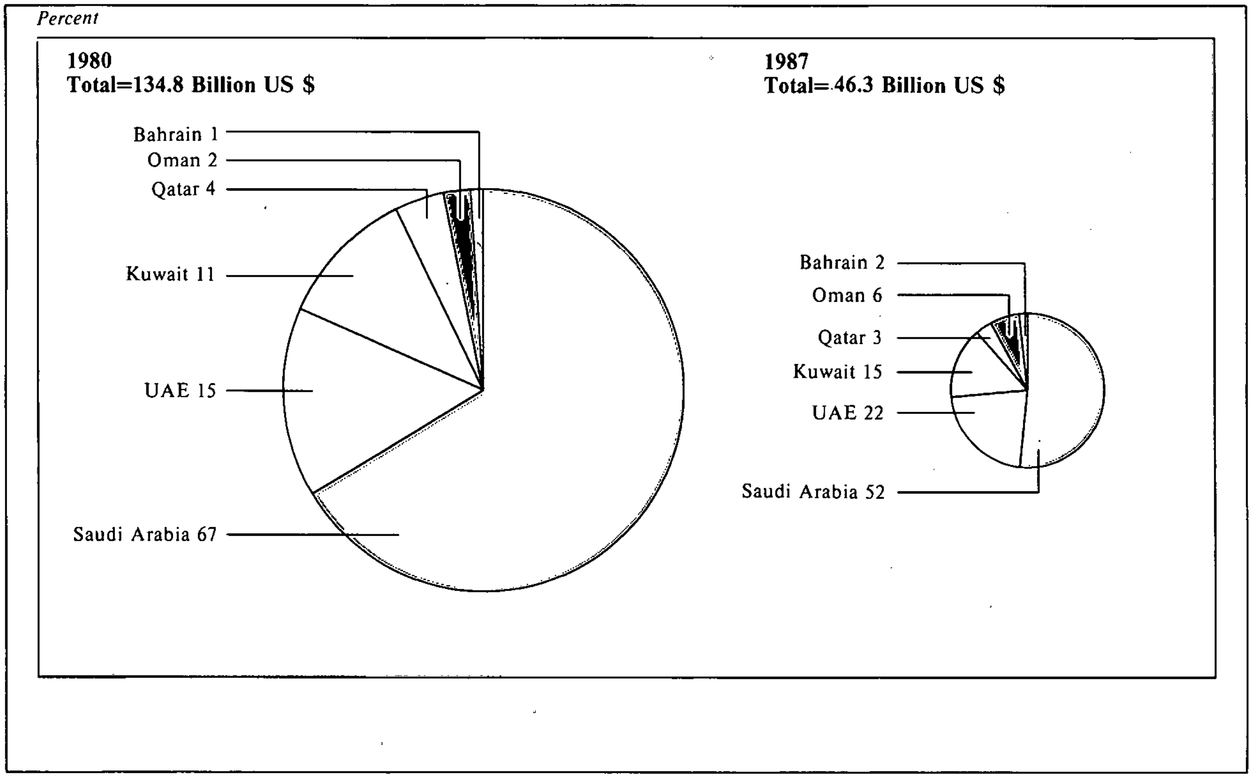
Figure 5
Share of Real Exports, 1980-87



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Oman have experienced current account deficits in recent years because of sharp reductions in oil exports and continued heavy spending on imports, according to US Embassy reporting.

Country Share, Composition, and Direction of Exports

The relative share of goods exported by the six GCC states has changed sharply since 1980. A large shift in the pattern of regional oil exports is the primary cause. Saudi Arabia has been the biggest loser with its export share falling to slightly less than half the regional total, down from two-thirds of all exports in 1980. Qatar's share also slipped by a small amount. On the other hand, Oman's export share almost tripled during the period as Muscat brought additional oil production capacity on line, according to the US Embassy in Oman. Similarly, higher oil export volumes in the United Arab Emirates and Kuwait helped push up their share of exports by almost 7 and 4 percentage points, respectively.

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Significant changes have also occurred in the composition of GCC exports. Although petroleum export volumes are about the same as in 1980, petroleum products have assumed greater prominence in the export mix. Product exports tripled to 15 percent of petroleum exports between 1980 and 1988. Exports of gas also increased sharply from 3 percent to almost 7 percent of hydrocarbon exports during this period. As a result, crude oil as a share of total exports fell by almost 18 percentage points, to about three-quarters of all exports. This shift in emphasis reflects the large amount of refinery capacity that has come on line in recent years—especially in Kuwait—and government attempts to capture more of the value associated with finished petroleum products, according to US Embassy reporting.

Nonoil exports continue to account for only a small share—15 percent—of regional foreign sales receipts. Overall, nonoil receipts have increased by $1.7 billion since 1982, to about $7.9 billion. Most of this small increase in the nonoil share of exports during this period is attributable to the fall in oil receipts. In real terms, nonoil sales have remained virtually flat since the beginning of the decade.

GCC industrial development policies largely account for the slow growth of nonoil exports, according to US Embassy reporting. Import substitution—development of productive capacity designed to meet domestic needs—has been a primary goal of regional industrialization efforts. Moreover, despite comparatively low production costs, GCC nonoil exports compete for already glutted petrochemical and metals—aluminum—markets and frequently face protective trade regulations from foreign governments.

The GCC states have become more dependent on a selected group of trade partners since 1980. The trend toward diversification of export trade, especially with LDCs, reversed course in 1984. Exports in general have become more concentrated among developed countries, which now account for 85 percent of regional foreign sales receipts; Japan and the United States alone account for 55 percent of GCC exports. Although shipments to LDCs rose to 23 percent of foreign sales in 1983, sales to this group returned to the 1980 level of 15 percent of export receipts last year. Exports to LDCs also have become more concentrated among Singapore, South Korea, Brazil, and Indonesia. In addition to greater concentration of exports, there has been a progressive shift of export trade to East Asian countries, including Japan, which now purchase almost 55 percent of GCC exports—up from 37 percent in 1980. Less than 1 percent of regional exports goes to Communist states.

Export Trends of Individual GCC States 25X1

These trends, although characteristic of the region, apply to a different degree in each GCC state. According to official trade data:

- Saudi Arabia is the largest single exporter, with $23 billion in foreign sales last year. Riyadh has experienced the smallest shift in sales to East Asia and since 1985 has more than doubled its exports to the United States. 25X1

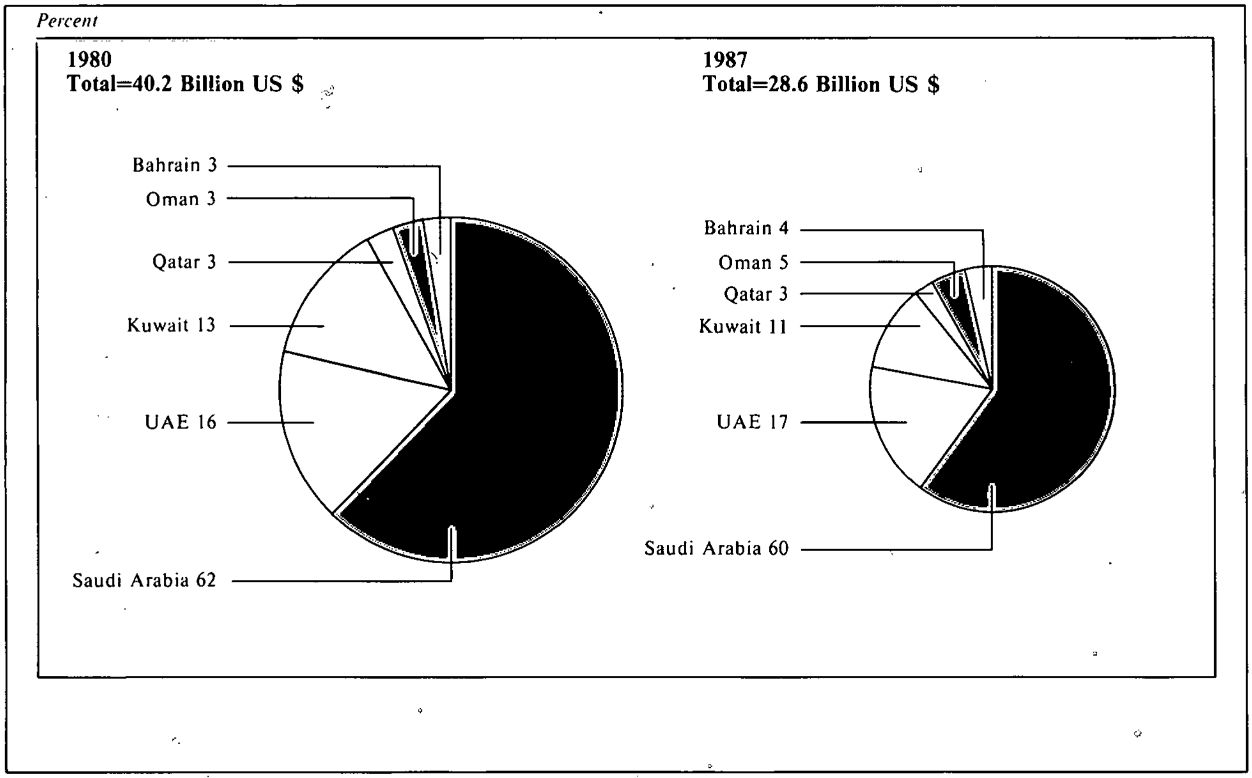
- The United Arab Emirates had annual sales of $12.0 billion in 1987. The Emirates have experienced a substantial eastward shift in their oil shipments, with sales to Singapore and South Korea increasing most rapidly in recent years. 25X1

- Kuwait has about $8.3 billion in foreign sales and has experienced the greatest shift toward the export of petroleum products. About 42 percent of exports go to East Asian states, roughly the same level as in 1980.

- Oman had foreign sales of $3.8 billion in 1987. Although three-quarters of Muscat's exports still go to East Asian customers, since 1985 a growing volume of oil sales has gone to Western countries, especially the United States. 25X1

- Bahrain is the fifth-largest exporter—$2.4 million in foreign sales last year—and one of the most dependent on trade with East Asia, particularly Japan, Singapore, and South Korea, which account for 67 percent of total exports.

Figure 6
Share of Real Imports, 1980-87



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- Qatar is the smallest exporter, with sales of $2.1 billion last year. It has suffered one of the sharpest reductions in oil earnings and the greatest shift since 1980 in its sales to Japan and Singapore.

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Composition and Source of Imports

Although the relative share of regional imports purchased by each state has changed little since 1980, the level of imports in each state has changed significantly. Total imports peaked in 1982 at $58 billion before declining by 40 percent last year. Saudi Arabia experienced the largest drop in imports—down about 54 percent from the peak. The United Arab Emirates suffered the least and was able to limit the decline to about 19 percent. Compared with more normal 1980 import levels—when the sharp increase in GCC imports was just beginning—the decline has been less severe. Kuwait experienced a 34-percent reduction, while Bahrain's imports remained nearly constant and Oman's import level actually increased by 11 percent.

The composition of GCC import trade changed dramatically in favor of capital goods during the past seven years before returning to a mix similar to the early 1980s. The largest import category—manufactured goods—currently accounts for about 80 percent of total imports, nearly the same level as 1980. This category experienced the largest increase and subsequent decline as a percent of imports during the period. Within this category, purchases of consumer goods have increased substantially, while imports of transportation equipment have declined as a percentage of trade in manufactured goods. Machinery imports have continued to represent about 25 percent of trade despite the slowdown of domestic development programs. Imports of agricultural commodities have declined slightly in terms of US dollars but increased as a percent of total imports. Larger purchases of meat products and agricultural processing equipment have replaced imports of cereals as domestic grain production programs have become active. Expansion of domestic refining capacity has nearly eliminated processed fuel imports.

Although the share of GCC imports obtained from developed countries compared to LDC suppliers—88 percent and 11 percent, respectively—has not changed since 1980, diversification of suppliers within each trade group has increased significantly. Japan (18 percent) and the United Kingdom (16 percent) have replaced the United States (15 percent) as the largest suppliers to the GCC. Trade with the United Kingdom, in particular, has accelerated rapidly since 1985. In general, GCC import trade with developed countries has shifted toward West European suppliers since 1980. Trade with LDC suppliers does not show the trend toward greater trade with East Asia that exists in GCC export trade. About 1 percent of regional imports are obtained from Communist states.

The US share of Gulf states' imports—both civilian and military—has dropped sharply since the beginning of the decade because of the dollar's strength and aggressive competition from Western and Third World suppliers. US suppliers now trail Japan and the United Kingdom as primary suppliers to the six GCC states. This shift is most pronounced in trade relations with the smaller GCC states. Since 1982, we estimate that the US share of the regional import market declined from 21 percent to 15 percent, while the US trade balance went from a $5 billion surplus in 1983 to a $1.5 billion deficit in calendar year 1987.

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The mix of commodities purchased from each trade partner has also shifted. The United States remains the largest supplier of agricultural commodities to the region—$670 million last year—although several West European countries have made significant inroads into the US position. The United States continues to supply the largest share—20 percent—of declining GCC raw material imports; Italy and the Benelux countries, however, have rapidly expanded their share of this market. West European suppliers have taken an increasing share of the large GCC trade in manufactured goods, primarily at the expense of the United States. Japan continues to be the largest supplier of manufactured goods to the GCC.

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We believe that the Gulf states are likely to continue to diversify trade. As technocrats have assumed a growing role in economic decision making in the GCC states, so has the trend toward diversification of commercial relations. Largely trained in the United States, these new managers are often more capitalistic and less inclined than their more traditional predecessors to base decisions strictly on personal relationships or loyalties, according to US Embassy reporting. They have been increasingly reluctant to accept any semblance of client-state status. As a result, regional economic planners have come to believe that the strategic value of the GCC states gives them the upper hand in negotiating economic deals. They have grown adept at playing trade partners and political allies against each other. In trade negotiations, US Embassy reporting indicates that the GCC states increasingly stress successful talks with other trade partners as a mechanism to obtain concessions, especially from the EC, Japan, and the United States.

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Trends in Military Imports

Saudi Arabia's recent letter of intent to buy additional Tornado fighter aircraft from the United Kingdom illustrates the growing GCC and regional interest in diversifying sources of arms supply. So far in 1988, the GCC states have signed agreements or stated intentions to purchase over $20 billion in new military equipment deliveries over the next five years, almost two times the total of any previous year, according to US Embassy and industry reporting. Over the past four years, most regional military contracts have gone to West European traders. The US share of military sales to GCC states fell by at least one-quarter between the period 1980-84 and the period 1985-88 because of US restrictions on arms sales and efforts by the GCC countries to diversify military suppliers. We believe that this trend will continue. 25X1

Gulf purchases from Communist countries will probably increase but will remain a relatively small proportion of the regional market. The main selling feature of Communist states is their ability to supply alternative weapons quickly—Moscow's sale of SA-14 missiles to the United Arab Emirates, for example—or by offering equipment Western states refuse to provide, such as China's sale of ballistic missiles to Riyadh. Most Communist country sales, however, probably will continue to involve relatively small amounts of light arms and ammunition and occasional military construction contracts, as a result of lingering GCC suspicions about the regional intentions of the Communist states and the perceived lower quality of Communist weapons systems. 25X1

We believe that reduced oil revenues and the end of the Iran-Iraq war probably will not deter the GCC states from the major aspects of their military improvement plans. So far, they have largely spared military budgets, while spending less on other budget categories, according to US Embassy reporting. Regional fear of Iraq's postwar intentions and distrust of Iran, which remain high, serve as reasons to proceed with military modernization programs. We believe that air force and air defense systems linked to sophisticated command and control centers will most likely remain the highest priority military purchases over the next five years. 25X1

Kuwait's attempt to obtain protection for its tanker fleet, for example, included a calculated appeal to both Washington and Moscow. 25X1

Import Trends of Individual GCC States

Although each GCC state has diversified its relations with suppliers, the six states differ in the pattern of their sources of imports. According to official trade data:

- Saudi Arabia is the region's largest importer, with $18 billion in purchases last year. Riyadh's reliance on the United Kingdom has increased sharply since 1985, placing London in a three-way competition with Japan and the United States for primary supplier to Saudi Arabia.
- The United Arab Emirates imported $6.2 billion in goods last year. Japan remains the largest supplier to the Emirates, with West Germany almost doubling its share of the domestic market—15 percent in 1987—at the expense of the United States and the United Kingdom.
- Kuwait made $4.8 billion in purchases last year. Japan and the United States have remained the largest suppliers, but the US position has eroded in the past several years. Kuwait has one of the most diversified trade relationships.

- Bahrain has about $2.3 billion in annual imports. Manama has made a major shift in its supplier relationships in favor of West Germany—18 percent of imports—largely at the expense of Japan.

- Oman is the next-to-the-smallest market—$1.8 billion—in the GCC. The largest percentage of its imports continues to come from the United Kingdom—30 percent—with imports from Japan falling by almost half since 1980, to 12 percent of imports.

- Qatar's import trade—$1 billion—is the smallest of the GCC states. Doha's supply relations have changed little since 1980, with the United Kingdom providing about 22 percent of domestic imports.

Changing Services Trade

GCC service trade—nonmerchandise financial flows—is poorly documented but appears to have undergone several major shifts in direction over the past seven years.[3] Receipts from large foreign investments—an inflow of funds—have declined. This largely reflects regional states' drawdown of reserves to meet domestic financial needs—especially in Saudi Arabia. Moreover, declining international interest rates have reduced earnings on remaining investments. Imports of foreign labor and oil services—maintenance, technology, and expertise—have also declined, although a large net services deficit has remained. The direction of regional services trade appears to follow trends in merchandise trade. More investments are being placed in East Asian countries, and a larger share of labor and technology imports are coming from a broader spectrum of developed countries and LDC suppliers.

[3] Services are a heterogeneous group of largely financial flows that are usually related to, or help facilitate, merchandise exports and imports. Services can represent an inflow or outflow of funds from an economy. Commonly incurred services include freight and insurance fees associated with merchandise imports, remittances of nationals working abroad or expatriates working in the GCC states, or interest and dividends earned on foreign investments.

Prospect for GCC Oil Sales

The cease-fire in the Iran-Iraq war has significantly altered prospects for GCC oil sales over the next five years. Iraq and, to a lesser extent, Iran have the capacity to put up to 2 million barrels per day of additional crude oil on world markets in the next year alone. Nevertheless, we project that demand for OPEC oil will increase by only about 1 or 2 percent—400,000 b/d—annually over the next few years. Statements by Iraqi oil officials and analysis of Iraqi oil policy goals suggest that Baghdad will attempt to export as much oil as possible without triggering an overall price collapse and will probably usurp any increase in demand for OPEC oil. Such a policy limits the likelihood of any significant increase in GCC oil exports. Moreover, the possibility of higher Persian Gulf oil production will probably put downward pressure on prices over the next several years and make them more volatile. As a result, we believe prices will most likely average between $11 and $15 per barrel next year. This scenario would cause a reduction in most GCC oil export receipts in 1989.

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The reaction of the GCC states to higher Iraqi and Iranian oil production will vary. There is little cooperation between the GCC states on oil production matters. Saudi Arabia probably will continue to use its capacity to raise oil production to obtain cooperation on oil production levels from other GCC states, Iraq, and Iran. Riyadh is unlikely to accept a significantly smaller share of OPEC production. Kuwait is primarily concerned with maintaining its long-term position in the market and supplying its downstream operations and probably will alter its production as necessary to maintain market share. The United Arab Emirates has grown increasingly impatient over low prices and probably will challenge any attempt by OPEC members to impose a quota substantially lower than 1.5 million b/d. The smaller states have little recourse but to follow the lead of the larger regional players in the oil market.

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The Trade Balance

The overall trend in trade relations has been the rapid erosion of the large trade surpluses of the early years of this decade. Whether with developed countries or LDCs, the trend has been toward a greater balance in trade. We estimate that the $58 billion trade surplus of GCC countries in 1982 will decline to a projected $18.1 billion surplus in calendar year 1988, a result of the sharp reduction in oil prices since 1985. The large trade surplus with Japan has fallen to $11.5 billion, a 60-percent decline since 1981. A declining trade surplus with Singapore—$2.7 billion in 1987—is most of what remains of the $20 billion surplus with LDCs in 1981. There are, however, several exceptions to this trend. The GCC's trade deficits with the United Kingdom, West Germany, and, to a lesser extent, France, have continued to increase as these states expanded sales to the region and reduced their purchase of regional oil. Trade surpluses with the United States, the Netherlands, and Italy have increased in recent years.

Prospects for Trade

We believe that Gulf states' dependence on foreign trade will remain high, despite efforts to establish domestic industries to substitute for imports. National markets are small and cannot sustain domestic production of the broad spectrum of products local economies need as they mature and become more urbanized. Moreover, a paucity of natural resources, expertise, and labor leaves little margin for comparative advantage in the production of most goods and services outside petroleum-based commodities. Even in this area, however, efforts to establish a market share will be difficult well into the next decade, and profit margins will be constrained because of worldwide surplus capacity for petroleum products.

We believe that government revenue levels will play a larger role in trade relations than in the past and will magnify the impact of price changes in the years ahead. As governments cut their spending to minimum levels, they probably will sacrifice quality and increase their reliance on lower cost suppliers—especially East Asian countries. We project that this trend probably will be most pronounced in Bahrain, Oman, Saudi Arabia, and Qatar, which are experiencing the greatest budget burdens relative to available financial resources. Kuwait and the United Arab Emirates are in the best position to maintain purchasing patterns on the basis of factors other than cost. 25X1

As a result of shrinking government finances, international trade relations probably will come under increased financial and technical scrutiny. Quality control and delivery schedules will play a larger role in determining the direction of trade, according to US Embassy reporting. Moreover, we believe that the direction of trade will increasingly be determined by the degree of trade financing a supplier is willing to provide. Regional governments have moved to redress the problem of payment delays, but late payments problems probably will remain a source of friction in commercial relations in direct proportion to national oil revenues. 25X1

In our view, the shift in consumption from the public to the private sector will persist as long as government revenues remain depressed. The trade mix probably will continue to reflect a growing share of services and consumer goods, especially durable goods and processed agricultural commodities, and a smaller percentage of capital goods. 25X1 25X1

The trend toward production and export of petroleum products almost certainly will continue as governments attempt to obtain more profit from their petroleum resources and circumvent OPEC strictures on crude oil trade, according to US Embassy reporting from the region. Kuwait is far ahead of the other GCC states in establishing downstream outlets for its refined oil products, but Saudi Arabia and the United Arab Emirates are rapidly expanding their overseas oil product marketing operations. 25X1 25X1

This change in the export mix will affect not only the direction of oil sales, but also the impact that selected GCC states may have on overseas markets. Although it is unlikely, some GCC states could obtain considerable control over a specific range of petroleum products such as transportation fuels, especially in Western Europe. We believe that, as the markets for GCC oil shift, there is a strong chance for a corresponding change in the direction of imports, especially toward East Asian economies that have a growing dependence on GCC oil and an expanding capacity to provide a variety of high-quality goods and services.

Services and spare parts trade probably will expand along with imports of computer technology necessary to control increasingly complex industrial processes as the Gulf governments attempt to complete and maintain their economic infrastructure. We believe that trade in all types of services, especially those at the high and low end of the technology spectrum, are likely to be in the greatest demand. GCC economies have an acute shortage of skilled technicians who will be in increasing demand as governments attempt to improve their utilization of capacity and the efficiency of public utilities and industrial facilities, according to US Embassy reporting. Computer technology and expertise will probably be in particularly high demand as economic planners attempt to integrate production processes and maximize output from existing infrastructure. Maintenance services and spare parts most likely will increase as a percent of industrial demand as large-scale development projects advance in age.

A substantial shift in the direction, if not the mix, of GCC trade is likely to accompany the end of the Iran-Iraq war. US Embassies report that Kuwait and Bahrain enjoyed a large and lucrative reexport trade to Iran and Iraq before the war and are likely to regain their status as major entrepots once the multibillion-dollar reconstruction efforts begin in the two former belligerents. Construction and manufactured goods, especially equipment related to the oil sector, probably will dominate regional reexport trade once reconstruction begins. We believe that oil trade also will undergo a significant change in direction. Higher output in Iraq and, to a lesser extent, in Iran probably will hinder the growth of GCC oil revenues, according to US Embassy reporting. Many GCC oil customers may attempt to diversify their oil supply relations or position themselves for reconstruction contracts by increasing their purchases of Iraqi or Iranian oil.

Trade opportunities for Communist states remain limited by the poor quality of their manufactures and the lack of mutual trade needs. The GCC states have had a small trade deficit with Communist states for most of the 1980s. Both the USSR and China, however, have increased their efforts to promote trade 25X1 with the region in recent years to improve their influence in this strategic area, according to US Embassy reporting. The USSR, for example, has become a major participant in recent Saudi grain sales. China, in particular, has made significant progress as an arms supplier to the region, most notably in its multibillion-dollar sale of missiles to Saudi Arabia. Oil remains the single area of long-term mutual economic interest. Although the Gulf states have not had a significant petroleum supply relationship with Communist countries, East European states probably will seek Gulf oil as Moscow husbands its domestic oil resources. Nevertheless, we believe that limited prospects for mutually beneficial trade and daunting payment problems will continue to limit GCC trade with Communist states—currently about 1 percent of total merchandise trade. 25X1

Implications for the United States

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Increased US imports of GCC oil, coupled with reduced US exports to the region, have left the United States as one of the few trade partners—and the only primary partner—with a growing trade deficit with the GCC states. US merchandise exports to the region, $5 billion last year, provided or affected the jobs of about 500,000 US workers, according to US Commerce Department estimates. Meanwhile, US purchases of GCC oil, especially Saudi oil, have increased from 300,000 b/d in 1985 to 1.2 million b/d—18 percent of US oil and product imports—in the first quarter of calendar year 1988. 25X1

The United States risks losing further trade opportunities that are likely to emerge in the 1990s—when oil prices are expected to rebound and postwar reconstruction efforts in Iran and Iraq will be under way—unless the deterioration in the US market position is

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reversed. The United States faces formidable competition from a growing number of suppliers, according to US Embassy reporting:

- Western and several Asian countries have vigorously pursued trade in the region and have responded quickly to commercial openings, frequently appearing more attuned to the regional business environment than many of their US counterparts.
- Foreign firms can now provide goods and technology previously available only from US firms.
- foreign suppliers also frequently offer lower prices or concessional financing and make joint production arrangements in an attempt to secure a long-term market presence.
- Foreign competitors have been more open to the use of countertrade—bartering manufactured goods and services for Gulf state oil—to obtain contracts, an arrangement that has particularly improved the advantage of many Third World countries in negotiating trade agreements, especially arms sales.
- Foreign governments—especially Japanese and West European—often cooperate with domestic firms in marketing their wares.

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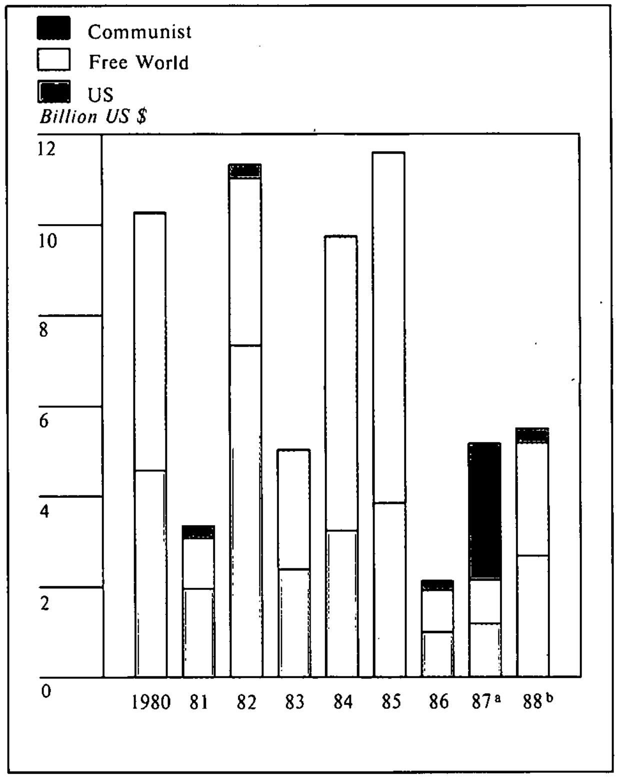
Waning US commercial relations with the GCC states also risks weakening US political and security influence in this strategic region. The still large trade deficits of many of the region's trade partners and their growing dependence on GCC oil, on the other hand, give ample incentive for these states—most West European countries, Japan, and a growing group of LDCs—to both strengthen political ties and increase exports to the GCC. In our view, the US military supply relationship probably is in the greatest jeopardy, as indicated by recent large arms contracts with the United Kingdom and China. Although the GCC states almost certainly will continue to rely on the United States as the ultimate guarantor of regional peace, Washington may, at a minimum, lose control over a large share of GCC military materiel as the origin of GCC arsenals change; Washington has a say in how US-origin military goods are used by foreign governments.

Figure 7
GCC Military Equipment Agreements, 1979-88



[a] Includes Chinese CSS-2 missile sale to Saudi Arabia.

[b] This does not include the well publicized Saudi letter of intent to purchase 48 additional British Tornados, and other military equipment. Although press reports place the value of the deal up to 30 billion dollars, we believe the value will be less than 20 billion dollars.

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A general preference for US goods and services and the lower relative value of the dollar, however, are positive signs for US commercial prospects in the region. Although it is too early to determine how much impact the sharp fall in the value of the US dollar will have, our analysis of preliminary trade data does show a 2-percentage-point jump in the US share of GCC imports in the last half of 1987 and

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early 1988; any change in the relative value of the dollar is not reflected in regional trade flows for about two years. The favorable change in the value of the dollar should be enhanced by the still high regional regard for US goods and technology. US Embassy reporting suggests that many firms will choose US goods first if prices are not too far removed from those of competitors. 25X1

Although GCC states have curtailed development spending, selected development projects are proceeding and continue to offer opportunities for a variety of goods and services from the United States. Government emphasis on improving social infrastructure is opening significant opportunities in the areas of urban management, waste and water control, and transportation design—all areas where US expertise exceeds that of most competitors. The shift in private consumption toward more processed goods and consumer durables also opens new doors for US trade. 25X1

Appendix

Selected GCC Trade Data

Table A-1
Direction of GCC Exports, 1980-87

Billion US $

	1980	1981	1982	1983	1984	1985	1986	1987
Total	**136.2**	**149.2**	**107.9**	**76.4**	**69.5**	**53.3**	**40.6**	**43.5**
Developed countries [a]	116.1	124.1	87.0	58.6	54.2	43.9	34.7	36.7
LDCs [b]	19.9	24.8	20.8	17.7	15.1	9.2	5.8	6.7
Communist countries	NEGL	0.3	0.2	0.1	0.2	0.1	0.1	0.1

[a] Includes OECD (19) economies.
[b] Includes Hong Kong, Malaysia, Mexico, the Philippines, Singapore, South Korea, Brazil, Chile, Thailand, Pakistan, Indonesia, and Argentina.

Note: Because of rounding, components may not add to the totals shown.

Table A-2
Share of GCC Exports, 1980-87

Percent

	1980	1981	1982	1983	1984	1985	1986	1987
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Developed countries [a]	85.3	83.2	80.6	76.7	78.0	82.5	85.3	84.4
LDCs [b]	14.7	16.6	19.3	23.1	21.7	17.2	14.4	15.4
Communist countries	0.0	0.2	0.2	0.2	0.2	0.2	0.3	0.2

[a] Includes OECD (19) economies.
[b] Includes Hong Kong, Malaysia, Mexico, the Philippines, Singapore, South Korea, Brazil, Chile, Thailand, Pakistan, Indonesia, and Argentina.

Table A-3
Direction of GCC Imports, 1980-87 [a]

Billion US $

	1980	1981	1982	1983	1984	1985	1986	1987
Total	**41.2**	**47.9**	**53.7**	**51.7**	**43.8**	**36.6**	**31.2**	**32.8**
Developed countries [b]	36.7	42.6	48.4	45.5	38.6	32.2	28.3	28.8
LDCs [c]	4.1	4.8	4.8	5.7	4.8	4.1	2.5	3.6
Communist countries	0.4	0.6	0.5	0.5	0.4	0.4	0.4	0.4

[a] Excludes most military trade.
[b] Includes OECD (19) economies.
[c] Includes Hong Kong, Malaysia, Mexico, the Philippines, Singapore, South Korea, Brazil, Chile, Thailand, Pakistan, Indonesia, and Argentina.

Table A-4
Share of GCC Imports, 1980-87 [a]

Percent

	1980	1981	1982	1983	1984	1985	1986	1987
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Developed countries [b]	89.1	88.8	90.1	88.0	88.2	87.8	90.7	87.8
LDCs [c]	9.8	10.0	8.8	11.1	10.9	11.1	7.9	11.0
Communist countries	1.1	1.2	1.0	1.0	0.9	1.0	1.4	1.2

[a] Excludes most military trade.
[b] Includes OECD (19) economies.
[c] Includes Hong Kong, Malaysia, Mexico, the Philippines, Singapore, South Korea, Brazil, Chile, Thailand, Pakistan, Indonesia, and Argentina.

Table A-5
Share of GCC States Balance of Trade (Exports-Imports), 1980-87 [a]

Percent

	1980	1981	1982	1983	1984	1985	1986	1987
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Developed countries [b]	83.6	80.5	71.1	53.0	60.7	70.8	67.6	73.3
LDCs [c]	16.8	19.7	29.6	48.4	40.3	30.7	35.6	29.5
Communist countries	−0.4	−0.3	−0.7	−1.5	−1.0	−1.5	−3.2	−2.7

[a] Excludes most military trade.
[b] Includes OECD (19) economies.
[c] Includes Hong Kong, Malaysia, Mexico, the Philippines, Singapore, South Korea, Brazil, Chile, Thailand, Pakistan, Indonesia, and Argentina.

Table A-6
GCC Exports to Developed Countries, 1980-87

Billion US $

	1980	1981	1982	1983	1984	1985	1986	1987
Total OECD (19)	**114.7**	**122.3**	**85.3**	**57.5**	**53.1**	**42.9**	**33.7**	**36.3**
United States	17.8	18.0	10.5	4.9	5.9	3.1	5.0	6.5
Japan	35.4	38.8	33.8	28.9	29.4	26.0	15.5	17.3
West Germany	7.7	8.5	5.8	2.6	1.8	1.1	1.1	1.0
France	12.1	15.6	9.9	5.5	3.8	2.5	2.6	1.9
United Kingdom	7.4	5.8	3.3	2.2	1.2	1.1	1.0	1.1
Italy	7.9	9.6	6.7	4.7	3.7	3.1	2.9	3.1
Canada	2.5	2.3	0.7	0.1	NEGL	NEGL	0.2	0.2
Spain	4.7	4.8	4.1	2.4	2.4	0.6	0.7	0.9
Australia	1.7	2.4	2.1	1.6	1.4	1.0	0.6	0.7
Netherlands	6.9	6.6	2.5	1.5	1.5	1.9	1.8	2.0
Sweden	2.0	2.0	0.5	0.1	NEGL	0.1	0.2	0.1
Belgium/Luxembourg	4.9	4.9	2.8	0.9	0.5	0.4	0.8	0.5
Switzerland	0.6	0.6	0.3	0.2	0.2	0.2	0.1	0.2
Austria	0.5	0.9	0.5	0.3	0.2	0.1	0.1	NEGL
Denmark	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.1
Norway	0.5	0.2	0.1	0.1	0.1	NEGL	NEGL	NEGL
Finland	0.8	0.6	0.3	0.1	0.2	0.2	0.1	0.2
Greece	0.8	0.5	1.1	1.2	0.7	1.0	0.7	0.5
Ireland	0.3	0.2	0.1	NEGL	NEGL	NEGL	NEGL	NEGL

Table A-7
Share of GCC Exports to Developed Countries, 1980-87

Percent

	1980	1981	1982	1983	1984	1985	1986	1987
Total OECD (19)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
United States	15.5	14.7	12.4	8.6	11.0	7.2	14.7	18.0
Japan	30.8	31.7	39.6	50.2	55.3	60.7	46.2	47.8
West Germany	6.7	6.9	6.8	4.6	3.3	2.6	3.3	2.8
France	10.6	12.8	11.6	9.5	7.2	5.8	7.8	5.1
United Kingdom	6.4	4.7	3.9	3.7	2.2	2.6	3.1	3.1
Italy	6.9	7.9	7.8	8.2	7.0	7.3	8.5	8.4
Canada	2.2	1.9	0.8	0.2	0.0	0.0	0.5	0.6
Spain	4.1	3.9	4.7	4.2	4.6	1.5	2.1	2.2
Australia	1.5	2.0	2.4	2.8	2.7	2.3	1.9	1.8
Netherlands	6.0	5.4	2.9	2.7	2.9	4.5	5.2	5.5
Sweden	1.7	1.6	0.6	0.1	0.0	0.1	0.4	0.3
Belgium/Luxembourg	4.2	3.9	3.3	1.5	0.9	1.0	2.4	1.4
Switzerland	0.5	0.5	0.3	0.3	0.3	0.4	0.3	0.5
Austria	0.4	0.7	0.6	0.5	0.3	0.3	0.2	0.1
Denmark	0.3	0.3	0.3	0.6	0.7	0.8	0.8	0.3
Norway	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Finland	0.7	0.5	0.4	0.2	0.3	0.5	0.4	0.4
Greece	0.7	0.4	1.3	2.0	1.2	2.3	2.1	1.4
Ireland	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Table A-8
GCC Imports From Developed Countries, 1980-87 [a]

Billion US $

	1980	1981	1982	1983	1984	1985	1986	1987
Total OECD (19)	**36.6**	**42.4**	**47.8**	**44.9**	**37.9**	**31.4**	**27.6**	**28.7**
United States	8.1	10.0	11.6	9.9	7.3	6.0	5.0	5.0
Japan	8.2	9.9	10.9	10.8	9.1	7.6	5.6	5.8
West Germany	3.6	4.3	5.5	4.6	3.7	3.1	2.9	3.1
France	2.4	2.8	3.1	2.9	3.5	2.1	2.0	2.0
United Kingdom	4.8	4.7	5.1	4.8	3.9	3.9	4.5	5.2
Italy	3.0	3.4	3.8	4.3	3.8	2.9	2.3	2.3
Canada	0.4	0.5	0.5	0.4	0.4	0.2	0.2	0.3
Spain	0.6	0.7	0.8	0.7	0.8	0.6	0.5	0.6
Australia	0.7	0.8	0.8	0.6	0.8	0.8	0.6	0.5
Netherlands	1.5	1.5	1.4	1.3	1.2	0.9	0.9	0.9
Sweden	0.7	0.7	0.8	0.9	0.5	0.4	0.4	0.4
Belgium/Luxembourg	0.8	0.9	0.9	0.9	0.9	0.7	0.7	0.6
Switzerland	0.9	0.9	1.2	1.1	1.0	0.9	0.9	1.1
Austria	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.2
Denmark	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.4
Norway	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Finland	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Greece	0.4	0.3	0.4	0.4	0.3	0.2	0.2	0.1
Ireland	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

[a] Excludes most military deliveries.

Table A-9
Share of GCC Imports From Developed Countries, 1980-87 [a]

Percent

	1980	1981	1982	1983	1984	1985	1986	1987
Total OECD (19)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
United States	22.1	23.7	24.3	22.1	19.2	19.0	18.2	17.3
Japan	22.5	23.5	22.8	24.1	24.0	24.1	20.4	20.2
West Germany	9.7	10.2	11.5	10.3	9.8	9.9	10.5	10.7
France	6.5	6.5	6.6	6.4	9.3	6.8	7.3	6.9
United Kingdom	13.1	11.0	10.6	10.8	10.2	12.4	16.1	18.1
Italy	8.3	8.0	8.0	9.7	10.0	9.4	8.5	8.0
Canada	1.0	1.2	1.1	0.9	1.0	0.7	0.8	0.9
Spain	1.7	1.6	1.6	1.6	2.0	2.0	1.8	2.0
Australia	1.8	1.9	1.6	1.4	2.0	2.7	2.3	1.8
Netherlands	4.1	3.5	3.0	2.8	3.0	3.0	3.3	3.2
Sweden	1.8	1.6	1.6	1.9	1.3	1.4	1.5	1.4
Belgium/Luxembourg	2.1	2.2	1.9	2.1	2.3	2.3	2.3	2.1
Switzerland	2.4	2.2	2.4	2.5	2.7	2.9	3.1	3.7
Austria	0.4	0.6	0.8	0.9	0.8	0.9	0.9	0.7
Denmark	0.8	0.8	0.8	1.0	0.8	0.9	1.1	1.5
Norway	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Finland	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5
Greece	1.0	0.7	0.7	0.8	0.8	0.7	0.8	0.5
Ireland	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.5

[a] Excludes most military trade.

Table A-10
GCC State Share of Exports, 1980-87

Billion US $

	1980	1981	1982	1983	1984	1985	1986	1987
Total GCC	**136.2**	**149.2**	**107.9**	**76.4**	**69.5**	**53.3**	**40.6**	**43.4**
Bahrain	1.4	1.5	1.2	1.0	0.9	0.8	0.8	0.9
Kuwait	15.1	12.1	6.0	7.2	8.2	7.3	5.7	6.8
Oman	2.9	3.9	3.1	4.0	4.0	4.5	2.1	2.6
Qatar	5.5	5.9	4.4	3.4	4.4	3.1	1.9	1.6
Saudi Arabia	90.8	106.3	76.4	46.5	38.3	24.5	22.2	22.5
United Arab Emirates	20.5	19.5	16.9	14.4	13.7	13.2	8.0	9.0

Table A-11
GCC State Share of Imports, 1980-87 [a]

Billion US $

	1980	1981	1982	1983	1984	1985	1986	1987
Total GCC	**41.2**	**47.9**	**53.7**	**51.7**	**43.8**	**36.6**	**31.2**	**32.4**
Bahrain	1.1	1.2	1.3	1.4	1.3	1.1	1.0	1.2
Kuwait	5.6	6.5	6.9	6.6	6.0	5.2	4.5	3.7
Oman	1.2	1.5	1.9	2.0	2.0	2.3	1.8	1.5
Qatar	1.1	1.3	1.7	1.2	0.9	0.9	0.8	0.8
Saudi Arabia	25.5	30.3	34.7	34.0	28.0	21.4	17.7	19.4
United Arab Emirates	6.7	7.2	7.3	6.6	5.7	5.7	5.3	5.9

[a] Excludes most military trade.

Table A-12
GCC States' Trade Balances (Exports-Imports), 1980-87 [a]

Billion US $

	1980	1981	1982	1983	1984	1985	1986	1987
Total GCC	**94.9**	**101.2**	**54.2**	**24.7**	**25.7**	**16.7**	**9.5**	**11.1**
Bahrain	0.3	0.3	−0.2	−0.4	−0.4	−0.4	−0.3	−0.3
Kuwait	9.5	5.6	−0.9	0.6	2.2	2.1	1.2	3.1
Oman	1.8	2.4	1.2	2.1	2.1	2.2	0.3	1.2
Qatar	4.4	4.6	2.7	2.2	3.5	2.2	1.0	0.8
Saudi Arabia	65.3	75.9	41.7	12.5	10.3	3.1	4.5	3.2
United Arab Emirates	13.7	12.4	9.7	7.8	8.0	7.5	2.7	3.2

[a] Excludes most military deliveries.

Table A-13
GCC-OECD (19) Partner Export Trade, 1987

Billion US $

	GCC	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Total OECD (19)	**36.1**	**0.6**	**5.3**	**2.0**	**1.2**	**19.3**	**7.7**
United States	6.5	0.1	0.6	0.2	NEGL	4.9	0.7
Japan	17.3	0.3	1.8	1.4	0.9	7.4	5.5
West Germany	1.0	NEGL	0.1	NEGL	NEGL	0.6	0.2
France	1.9	NEGL	0.3	NEGL	NEGL	1.2	0.3
United Kingdom	1.1	0.1	0.1	0.1	NEGL	0.6	0.2
Italy	3.1	NEGL	1.0	0.1	0.2	1.3	0.5
Canada	0.2	NEGL	NEGL	NEGL	NEGL	0.1	NEGL
Spain	0.8	NEGL	0.2	0.0	NEGL	0.6	NEGL
Australia	0.7	NEGL	0.1	NEGL	0.1	0.3	0.1
Netherlands	2.0	NEGL	0.8	0.1	NEGL	1.0	0.1
Sweden	0.1	NEGL	NEGL	NEGL	NEGL	0.1	NEGL
Belgium/Luxembourg	0.5	NEGL	NEGL	NEGL	NEGL	0.4	NEGL
Switzerland	0.2	NEGL	NEGL	0.0	0.0	0.1	NEGL
Austria	NEGL	0.0	0.0	0.0	0.0	NEGL	0.0
Denmark	0.1	0.0	0.1	0.0	0.0	NEGL	0.0
Norway	NEGL	0.0	0.0	0.0	0.0	NEGL	0.0
Finland	0.2	0.0	0.0	0.0	0.0	0.2	0.0
Greece	0.5	NEGL	0.1	0.0	NEGL	0.4	0.0
Ireland	NEGL	0.0	0.0	0.0	0.0	NEGL	0.0

Table A-14
GCC-OECD (19) Partner Import Trade, 1987 [a]

Billion US $

	GCC	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Total OECD (19)	**29.3**	**1.1**	**3.5**	**1.9**	**0.8**	**17.2**	**5.0**
United States	5.0	0.2	0.5	0.2	0.1	3.4	0.6
Japan	5.8	0.1	0.9	0.3	0.2	3.3	1.1
West Germany	3.1	0.2	0.4	0.2	0.1	1.4	0.8
France	2.0	NEGL	0.3	0.1	0.1	1.1	0.4
United Kingdom	5.2	0.2	0.4	0.4	0.2	3.3	0.8
Italy	2.3	0.1	0.3	NEGL	0.1	1.5	0.4
Canada	0.3	NEGL	NEGL	NEGL	NEGL	0.2	NEGL
Spain	0.6	NEGL	0.1	NEGL	NEGL	0.4	0.1
Australia	0.5	0.1	0.1	NEGL	NEGL	0.2	0.1
Netherlands	1.5	NEGL	0.1	0.7	NEGL	0.5	0.2
Sweden	0.4	NEGL	0.1	NEGL	NEGL	0.2	0.1
Belgium/Luxembourg	0.6	NEGL	0.1	NEGL	NEGL	0.4	0.1
Switzerland	1.1	0.1	0.1	NEGL	NEGL	0.7	0.1
Austria	0.2	NEGL	NEGL	NEGL	NEGL	0.1	NEGL
Denmark	0.4	NEGL	0.1	NEGL	NEGL	0.3	0.1
Norway	0.1	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL
Finland	0.1	NEGL	NEGL	NEGL	NEGL	0.1	NEGL
Greece	0.1	NEGL	NEGL	NEGL	NEGL	0.1	NEGL
Ireland	0.1	NEGL	NEGL	NEGL	NEGL	0.1	NEGL

[a] Excludes most military trade.

Table A-15
Composition of Regional Exports, 1980-86 [a]

Billion US $

	1980	1981	1982	1983	1984	1985	1986
Total	**137.6**	**152.2**	**109.7**	**77.4**	**70.2**	**53.3**	**40.9**
Foodstuff	0.1	0.1	0.1	0.1	NEGL	0.1	0.1
Raw materials	0.7	0.5	0.4	0.6	0.5	0.4	0.5
Fuels	135.1	150.0	107.4	75.1	68.2	51.0	38.0
Manufactured goods	1.2	1.5	1.6	1.4	1.3	1.5	2.0
Other	0.5	0.2	0.2	0.3	0.3	0.3	0.4

[a] Directional trade data may not include all countries. Disaggregated trade data for the GCC is not available for 1987.

Table A-16
Composition Share of Regional Exports, 1980-86 [a]

Percent

	1980	1981	1982	1983	1984	1985	1986
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Foodstuff	0	0.1	0.1	0.1	0.1	0.1	0.2
Raw materials	0.5	0.3	0.3	0.8	0.7	0.8	1.1
Fuels	98.2	98.5	98.0	97.0	97.0	95.8	92.9
Manufactured goods	0.9	1.0	1.5	1.8	1.8	2.8	4.8
Other	0.4	0.1	0.2	0.4	0.4	0.6	0.9

[a] Directional trade data may not include all countries. Disaggregated trade data for the GCC is not available for 1987.

Table A-17
Composition of Regional Imports, 1980-86 [a]

Billion US $

	1980	1981	1982	1983	1984	1985	1986
Total	**44.9**	**51.9**	**54.7**	**50.8**	**43.0**	**35.5**	**31.1**
Foodstuff	4.9	5.7	5.3	4.9	5.6	4.6	4.0
Raw materials	0.7	0.6	0.6	0.6	0.5	0.4	0.3
Fuels	3.4	4.2	3.1	0.6	0.3	0.3	0.2
Manufactured goods [b]	34.4	40.2	44.3	43.2	35.4	29.3	24.9
Other	1.5	1.2	1.3	1.5	1.2	0.9	1.7

[a] Disaggregated trade data for the GCC is not available for 1987.
[b] Excludes most military trade.

Table A-18
Composition Share of Regional Imports, 1980-86 [a]

Percent

	1980	1981	1982	1983	1984	1985	1986
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Foodstuff	10.9	11.0	9.7	9.8	12.9	13.0	13.0
Raw materials	1.5	1.2	1.1	1.2	1.2	1.1	1.1
Fuels	7.6	8.1	5.7	1.1	0.8	0.8	0.7
Manufactured goods [b]	76.7	77.4	81.1	85.0	82.3	82.6	79.8
Other	3.4	2.3	2.4	3.0	2.8	2.6	5.4

[a] Disaggregated trade data for the GCC is not available for 1987.
[b] Excludes most military trade.

Table A-19
Composition of Exports by GCC State, 1986 [a]

Billion US $

	Total Trade	Foodstuff	Raw Materials	Fuels	Manufactured Goods	Other
GCC total	**40.9**	**0.1**	**0.5**	**38.0**	**2.0**	**0.4**
Bahrain	0.8	NEGL	0.2	0.5	0.1	NEGL
Kuwait	5.6	NEGL	NEGL	5.4	0.1	NEGL
Oman	2.5	NEGL	NEGL	2.3	0.1	NEGL
Qatar	1.9	0.0	NEGL	1.8	0.1	NEGL
Saudi Arabia	22.0	NEGL	0.1	20.3	1.4	0.2
United Arab Emirates	8.2	NEGL	0.2	7.7	0.2	0.1

[a] Disaggregated trade data for the GCC is not available for 1987.

Table A-20
Composition of Imports by GCC State, 1986 [a] [b]

Billion US $

	Total Trade	Foodstuff	Raw Materials	Fuels	Manufactured Goods	Other
GCC total	**31.1**	**4.0**	**0.3**	**0.2**	**24.9**	**1.7**
Bahrain	0.9	0.1	NEGL	NEGL	0.7	0.1
Kuwait	4.5	0.5	NEGL	NEGL	3.8	0.2
Oman	1.8	0.2	NEGL	NEGL	1.5	0.1
Qatar	0.8	0.1	NEGL	NEGL	0.7	NEGL
Saudi Arabia	17.8	2.6	0.2	0.1	14.0	1.0
United Arab Emirates	5.3	0.6	0.1	0.1	4.3	0.3

[a] Disaggregated trade data for the GCC is not available for 1987.
[b] Excludes most military trade.

Table A-21
Composition of GCC Exports to Developed Countries, 1986 [a]

Billion US $

	Total Trade	Foodstuff	Raw Materials	Fuels	Manufactured Goods	Other
Total OECD (19)	**33.2**	NEGL	**0.4**	**30.8**	**1.4**	**0.4**
United States	5.0	NEGL	0.1	4.5	0.2	0.1
Japan	15.3	NEGL	0.2	14.8	0.3	0.1
West Germany	1.1	0.0	NEGL	0.9	0.1	0.1
France	2.4	NEGL	NEGL	2.3	NEGL	0.0
United Kingdom	1.0	NEGL	NEGL	0.5	0.3	0.1
Italy	2.9	NEGL	NEGL	2.7	0.1	NEGL
Canada	0.1	0.0	NEGL	0.1	NEGL	NEGL
Spain	0.7	NEGL	NEGL	0.7	NEGL	NEGL
Australia	0.6	0.0	0.0	0.6	NEGL	NEGL
Netherlands	1.8	NEGL	NEGL	1.7	0.1	0.0
Sweden	0.2	0.0	NEGL	0.1	NEGL	0.0
Belgium/Luxembourg	0.8	NEGL	NEGL	0.7	0.1	NEGL
Switzerland	0.1	0.0	NEGL	NEGL	0.1	NEGL
Austria	0.1	0.0	NEGL	0.1	NEGL	NEGL
Denmark	0.3	NEGL	0.0	0.3	NEGL	0.0
Norway	NEGL	0.0	NEGL	NEGL	NEGL	0.0
Finland	0.2	0.0	NEGL	0.1	NEGL	0.0
Greece	0.7	0.0	NEGL	0.7	NEGL	0.0
Ireland	NEGL	NEGL	0.0	0.0	NEGL	0.0

[a] Disaggregated trade data for the GCC is not available for 1987.

Table A-22
Composition of GCC Imports From Developed Countries, 1986 [a] [b]

Billion US $

	Total Trade	Foodstuff	Raw Materials	Fuels	Manufactured Goods	Other
Total OECD (19)	**27.7**	**3.9**	**0.2**	**0.2**	**21.8**	**1.6**
United States	4.7	0.7	0.1	NEGL	3.8	0.1
Japan	5.6	0.1	NEGL	NEGL	5.5	NEGL
West Germany	2.9	0.2	NEGL	NEGL	2.3	0.3
France	2.0	0.4	NEGL	NEGL	1.6	NEGL
United Kingdom	4.4	0.5	NEGL	NEGL	2.9	1.0
Italy	2.4	0.1	NEGL	NEGL	2.2	NEGL
Canada	0.2	0.1	NEGL	0.0	0.1	NEGL
Spain	0.5	0.1	NEGL	0.0	0.4	0.0
Australia	0.5	0.5	NEGL	0.0	NEGL	NEGL
Netherlands	1.3	0.3	NEGL	NEGL	0.5	NEGL
Sweden	0.4	NEGL	NEGL	0.0	0.3	NEGL
Belgium/Luxembourg	0.7	0.1	NEGL	NEGL	0.5	0.1
Switzerland	0.9	0.5	NEGL	0.0	0.8	NEGL
Austria	0.3	NEGL	NEGL	0.0	0.2	NEGL
Denmark	0.3	0.2	NEGL	0.0	0.1	0.0
Norway	0.1	NEGL	NEGL	0.0	0.1	NEGL
Finland	0.1	NEGL	NEGL	0.0	0.1	0.0
Greece	0.2	NEGL	NEGL	NEGL	0.2	NEGL
Ireland	0.1	0.1	NEGL	0.0	NEGL	NEGL

[a] Disaggregated trade data for the GCC is not available for 1987.
[b] Excludes most military trade.

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