

Prospects for Enhancing Economic Ties Between the GCC and Japan

The economic ties you see today between the GCC and Japan have been built up over a relatively short period compared to our other international economic links. It is, however, a relationship that is evolving and strengthening, and has managed to overcome most of the difficulties that can exist among friends.

The people of the gulf region attach considerable importance to continuing and strengthening Gulf-Japan economic and trade relations. I am sure that our Japanese friends are as keen as we are to enhance economic cooperation, and I am encouraged in this view by the strong support this conference has received from some of the major Japanese financial and industrial institutions.

This partnership is valued by both sides, as evidenced earlier in the year by the consultations to promote further cooperation in various fields. In any partnership, there has to be a contribution from both sides, and while it is not possible to achieve equality in such arrangements, a reasonable balance needs to be maintained. It is to be hoped that in the future this relationship will be consistent and supportive, with no disruption in relations like that which occurred during the brutal Iraqi invasion of the State of Kuwait.

Now let me speak about our expectations and aspirations. Historically, this region has been vital for world trade, being the fulcrum of East-West trade. Its geographic location at the center of three densely-populated continents, with its peninsula shape, has provided access to the major international

waterways. Nowadays, however, although our region is still vital for world oil supplies, we seek to enhance its status internationally by adopting policies that aim at attracting foreign commercial, industrial and financial investment to the region. Our free trade zones stand witness to this commitment. Special advantages for foreign investors in the Gulf are numerous. For example, they will enjoy the abundance of natural resources and their derivatives, the lower cost of fuel and oil products, and proximity to major export markets.

In so far as trade is concerned, Japan is by far the GCC's largest trading partner after the United States of America. More than half of Japan's oil supplies in 1992 came from three members of the GCC. In recent years, Japan has been successful in promoting its exports to the Gulf countries, particularly its automobiles and electronic and electrical appliances. In 1992 alone, the GCC imported around U.S.\$ 11 billion worth of Japanese products, and made a total of U.S.\$ 27 billion in exports to Japan.

It is therefore important to realise that although Japan is a major customer for GCC oil, this very oil is crucial to Japan's industrial base, and its ability to produce its exports at a competitive price. Stability in the Gulf, where over 60% of world oil supplies can be found, is therefore possibly almost as important to Japan as it is to the GCC countries.

The importance of providing adequate oil supplies in order to maintain stability in the international oil market is paramount, and the GCC have been endeavoring to increase their production capacity to keep pace with the anticipated increased demand for oil as the next century approaches. Increased productive capacity will lead to increased capital costs, which the oil producing countries will need to balance against their

new reduced financial resources. It has been estimated that an investment of U.S.\$ 59 billion will be required over the next seven years to raise the level of oil production to satisfy the increasing demand. The brutal Iraqi invasion of Kuwait has increased the government budget deficits of certain members of the GCC, and undoubtedly, these deficits will affect their potentiality to expand their future production capacity.

With this in mind, the GCC countries are looking at their local private sector and foreign institutional investors to provide a percentage of the financing and investment needs of certain oil and other enterprises.

When one considers the level of the GCC's trading relationship with Japan, it is surprising that the level of other GCC-Japan economic relations in areas, such as direct investment, banking, and manufacturing is comparatively low. The modest investments made by Japan in the past have been concentrated in the oil sector. However, new opportunities are now being created. It may be hoped that Japan will develop and bolster its business cooperation with GCC countries for the benefit of all.

The GCC is emerging from the trauma of the vicious Iraqi invasion of Kuwait. Obviously, Kuwait has suffered a tremendous shock, yet the speed of recovery has been impressive. For example, despite the systematic destruction of its oil fields by the Iraqis, Kuwait is already capable of pumping in excess of two million barrels a day on a sustainable basis. Power and water supplies have been fully restored, and the many buildings and installations vandalized during the occupation have been repaired. On the surface, Kuwait's progress is such that there is little sign of the war having taken place. Below the surface, there is much to do to recover from the financial cost of this disastrous invasion and its subsequent

impact on the budgets of the GCC countries. This has not been helped by the slow economic growth in the industrial countries.

There is a need to reduce the region's dependence on oil production for its economic activities. It would be invaluable to have the benefit of Japan's technological know-how to help develop GCC industries. Joint industrial ventures are possible and could yield mutual benefit in building up the Gulf's industrial base, diversifying its economy and establishing more downstream industries. Discussions on these issues have started with several interested countries, and it is important that our major partners not be slow in coming forward, and thus missing opportunities.

Some GCC states are already taking steps to develop their service sector by privatizing public sector activities. It is hoped that this step will provide investment opportunities and in this way create space for the private sector in the national economy by reducing the State's influence. As a further development, the GCC countries are now providing certain domestic and foreign companies with the opportunity to participate in various enterprises. These companies will enjoy the GCC's "free economy" policy, lower taxation and the absence of restrictions on transfer of capital and profits.

Discussions have already started with Europe to enhance trade links. Talks took place with Japan early this year in order to encourage economic and trade relations, and highlight the ample opportunities for Japanese exporters, and the investment potentials within the GCC countries for Japanese institutional investors.

The GCC economy has embarked on a new development

phase, and in order to maintain its progress, it will need support from the region's central banks and financial markets. Banking sectors throughout the Gulf feel that the central banks are more firmly in the driver's seat, and that financial markets are becoming more orderly and in consequence more stable. All Gulf states have reached agreement on implementing the Basle Capital Adequacy recommendation, and the vast majority of the Gulf's banks have achieved the 8% reserve capital - to - assets ratio set down by the Basle Convention. Moreover, several Gulf countries, including Kuwait, have already required banks to adopt the London-based International Accounting Standards, leading to a fuller disclosure of banks' activities.

In addition, the GCC is attempting to harmonize the supervision policies of all its central banks. Risk, obviously cannot be completely eliminated. Banking, after all, is a risky business. As regulators, we are attempting to provide a framework for those dealing with our banks, whereby the risk is no greater than for those who deal with Japanese banks. For example, regulations for key risk areas, such as capital adequacy, reserve requirements, credit concentration and off-balance-sheet items have, already been introduced in many GCC countries. Other subjects are being dealt with as quickly as the legislative process allows. We are aware that there is still much work to be done, but the need and the will to succeed exist.

Thus, the Gulf side of the partnership aims to provide an appropriately stable environment, supported by a strong financial sector to back oil exports, so that Japan can deal confidently with this region.

Both sides can benefit from the increased business activity and investment that cooperation between the Gulf states and Japan

can bring. The Gulf stands to gain from Japan's technology in increasing oil industry efficiency and capacity. Important though this is, other industries can also be developed, not least the banking and financial sector. Together with the know-how that Japan can supply, the GCC are looking for opportunities to improve the knowledge and skills of their national workforce, from the senior management level to junior trainees who represent the future of the region. As people's skills improve, then so will their ability to deal with the problems the GCC face.

Furthermore, Japan understands the complexities of the Gulf region, and can support the Gulf on issues such as the carbon tax suggested recently by the EEC of three dollars a barrel in 1993, increasing to ten dollars a barrel by the year 2000. Taxes of this type could restrict the capacity to sustain oil production levels.

To attempt to put such pressure on the net proceeds from oil sales will clearly reduce the capacity to expand production to meet the demands of the industrial world. In consequence, the outcome could well be to the disadvantage of the EEC, and the rest of the world for that matter, and present even more problems. Japan's role in explaining the situation existing in the Gulf could be invaluable.

I hope that this conference will take this valuable opportunity to debate fully ways in which we can help each other. We look for a balanced "give and take" relationship in which both the GCC and Japan contribute to each other's future prospects and security. In my view, the potential benefits are so important that we cannot afford to allow our cooperation to lapse.
