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...Fast Brief

INDUSTRIALIZATION POLICIES IN THE GULF

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Introduction: Industrial development in the GCC is impressive in its growth. The GCC, especially Saudi Arabia, want to become major industrial powers, move into higher value added products and increase the knowledge content of their activities. Individual GCC states pursue different industrial policies as they forge ahead. Abu Dhabi (UAE), Kuwait, and Qatar largely use public funds in their industrialization drives. Saudi Arabia uses a mix of public and private funds, and Dubai (UAE) encourages private investment while using public funds to invest in infrastructure.

Industrial development is also creating societal changes, bringing major reforms to educational systems, bringing larger numbers of women into the workforce and weakening conservative, traditional and often religiously based opponents of these changes. Clearly, the current crisis has had a dampening impact but the impact of the crisis is significantly less in the GCC than elsewhere

Scope of Industrial Development in the GCC: Most industrial activity in the GCC is natural gas based - all this due to very low cost feedstock (for eg. $0.75/MM btu in Saudi Arabia). Gas is therefore used for desalination, petrochemicals, steel, aluminum, fertilizers, cement, etc. Indeed there is now a shortage of gas, especially in Bahrain, Saudi Arabia, Oman, Kuwait, and the UAE. Saudi Aramco is now moving into Naphtha based products and Oman and Bahrain will have to import – possibly from Iran or Qatar. The markets for GCC products are mostly in the Far East and India, though firms are also now beginning to eye Europe. New strategies are being developed as well.

GCC's Overall Energy Based Industries

	Total (including expansions)	Basic Petchems	Advanced Petchems	Fertilizers	Metals
# Existing Energy-Based Manufacturing Lines	*141*	*110*	*11*	*11*	*9*
# Est. Planned Energy-Based Manufacturing Lines	*200*	*125*	*53*	*9*	*14*
# Owned by Private Sector	91				
Production [000s mt]/y	69,790				
Approx. Planned Expansion [000s mt/y]	150,000				
Est. Existing Investment [millions of $]	$100,000				
Est. Investment Planned [millions of $]	$300,000				
# Existing Industrial Cities	7				
# Planned Industrial Cities	8				

The Saudi Basic Industries Corporation is now moving to develop its own technologies and purchase new technologies from firms like GE, Huntsman (differentiated chemicals), and DSM (polymers, base chemicals, etc.). SABIC and other GCC firms are also putting a major emphasis on training and research.

Background Causes: Clearly, a major impetus and enabler for the process of industrialization lies in the huge surpluses generated from oil exports (Abu Dhabi and Saudi Arabia) and natural gas (Qatar). The industrialization effort is also focused on creating high-end employment for a burgeoning young population and also on modernizing society. It is very much an effort to bring these countries into the 21st century and is supported by the elites, i.e. the civil service, senior members of the ruling families, and the merchants and entrepreneurs

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in these countries. As noted earlier, while there are common threads among these countries and their efforts to industrialize, there are also significant differences. This Fast Brief will explore these differences by looking at Saudi Arabia, Abu Dhabi, and Qatar.

The Saudi Vision: The Kingdom wants to be a major world power within 15 years or so. It is evident that it cannot do so with military might However, it does see itself as the center of Islam, the world's energy power house and wants to move beyond exports of oil, diversify its income base and become an economic heavy weight. The *Strategy* is to become as dominant in chemicals and fertilizers by 2015/2020 as the country is in oil today. It seeks to maximize income from its natural advantages, i.e. cheap energy, plentiful and cheap capital, and a prime geographic location between Asia and Europe. The goal is also to become a major player in other heavily energy-reliant industries such as cement and aluminum.

Shorter-term goals: The focus is on developing very large industrial complexes but the current volume of chemical production is already quite impressive at approximately 52 million ts/y. Products include C2s, C3s and some Aromatics – used to produce a range of important chemicals and polymers, including styrene, phenol, aniline, polyester and nylon. Plans are afoot to move into large scale Aromatics and establish a large DAP plant for a strong move into fertilizers. There are also plans to develop Bauxite and Aluminum. There are ongoing efforts to develop new industrial cities in addition to the existing ones in Jubail and Yanbu which were developed in the 1990s. On the books are Jubail 2, Yanbu 2, King Abdullah Economic City, and three others in Hail, Jizan, and Ras azZour. Plans are ongoing to develop large scale infrastructure projects such as railroad development programs, among others, from the Kingdom's bauxite and phosphate mines to the Gulf as well as a railroad across the Arabian peninsula. Also under construction are new and/or enlarged harbors in Dammam, Yanbu, Rabigh, Jizan, and RasAzZour.

External Links and Alliances: Investments are being focused overseas to buy technology and establish market share. In this context, and as noted earlier, SABIC has bought assets of DSM, Huntsman, and GE Plastics. Joint ventures have been established between Saudi Aramco and ExxonMobil as well as between Saudi Aramco and Chinese firms in Fujian.

Saudi Arabia has an ongoing effort to dominate the chemical industry as it continues to develop Natural Gas based industries while it is now entering the business with Naphtha (oil) based plants. Petro-Rabigh has signed a joint venture with Japan's Sumitomo for $10.6 billion. Aramco's Ras Tannura is negotiating with Dow for a petrochemical plant worth up to $24 billion. There is also a huge growth in private sector investments and a strong push to develop stronger political ties with markets in Asia. The Saudi Monarch recently visited India and China, while the Chinese President has visited the Kingdom twice in three years. There are substantial Saudi investments in refineries in China and Korea, including Sinopec in the upstream gas effort.

Knowledge/Learning and Technology Development in Saudi Arabia: Significant state investments in technology and education are being made in the Kingdom. SABIC alone has 5 research center and no longer feels compelled to rely solely on Joint ventures for its new projects. The new King Abdullah University, which cost $8 billion is managed by Saudi Aramco and shielded from conservative influences in the education sector. In general, there is a move to reform the educational system with greater emphasis on technical educations in schools. Some of the changes include new presidents for traditional universities, exploring the establishment of private universities, and the recent appointment of a female Deputy Minister of Education.

Financial Structures: The Kingdom uses a combination of public and private funding, a prime example of which is the $10 Billion Petro-Rabigh project. This was put together with Saudi Aramco taking a 37.5%share composed of equity plus Sub-debt and Sumito of Japan with another 37.5% in equity plus Sub-debt. A public offering on the Riyadh Stock Market provided the remaining 25%. Loans of some $2 billion were provided by the state's Public Investment Fund (PIF) while other lenders included private Banks and Islamic financial institutions. The strong presence of the Saudi state in the deal is intended to make the public feel more confident and supportive of the project. Other similar examples include Saudi Kayyan, another petrochemical enterprise and Yansab. The latter is SABIC's largest petrochemical complex with an annual production to exceed 4 million metric tons of petrochemical products.

Dubai: Perhaps best summed up in the movie dictum, "if you build it, they will come," Jebel Ali remains one of the best managed ports in the world, handling 46.8 million TEUs[2]. The port and its surrounding zone provide a tax-free haven with easy labor rules and a very efficient infrastructure. Numerous companies use its trans-shipment facilities. It has attracted countless Iranian firms that are able to buy abroad and export to Iran. Numerous factories produce in Jebel Ali with very cheap labor for export to Pakistan while keeping profits in the UAE. Until the crisis, banks in Dubai were flush with cash from Iran, Pakistan and the rest of the region. In Dubai, the state has provided an overall enabling structure while private capital has provided growth. There is little role for local citizens, except for the merchants and its ruler, Sheikh Mohamed bin Rashid Maktoum.

Qatar: The Qatari vision is to become a major regional actor, balance Saudi growth and maximize the power and influence of a very small population. Its industrialization strategy largely rests on developing the largest LNG industry in the world. Production currently stands at 38 million ts/y, with products overwhelmingly sold to Asian markets. Plans are being laid to increase production to 72 million ts/y in joint ventures with ExxonMobil, Maersk, and Occidental. Qatar will also be developing a substantial industrial hub with Q-Chem and QAPCO to produce about 20 million ts/y of chemical products in a joint venture with Chevron Phillips. There are further plans to expand to produce 43 million ts/y of various chemical products in the future. Qatari policies focus on working closely with foreign partners and using their technology and marketing skills. Financing of projects is arranged by the state and there is almost no role foreseen for private investors.

Risks: These various strategies do come with potential setbacks. There could be a serious push back by conservative forces in Saudi Arabia, though the speed of change appears to have, perhaps temporarily, forestalled opposition. The popularity and stature of the King has also played an important role in dampening opposition, but there is no guarantee that this would be the case if and when there is a transition of power. .

There are also external factors at play that will impact not only Saudi Arabia but other GCC countries as well. Lack of economic integration within the GCC remains an issue. Stability in Iran is also an important factor.

The global economic recession also remains a worry. For example, China's demand for petrochemicals is declining. Oil prices and petrochemical prices could potentially further decline as well, though they appear to be on an upswing for now. Longer term challenges include the fact that educational reforms may take too long to have an impact. The heavy reliance on foreign labor could also overcome the ability of Qatar and the UAE to cope with such an influx.

2009 - Dreams on Hold: Dubai is feeling the impact as tourism from Europe declines and many buildings and projects are scaled down, put on hold, or abandoned. Two 400,000 b/d refineries are on hold in Saudi Arabia. The Dow Chemical project in Saudi for $24 billion will likely be revised downward, at least in the short-term and a $14 billion Dow Chemical project with Kuwait has been cancelled. It is also clear that not all the "Economic Cities" of Saudi Arabia will soon see daylight. Furthermore, funds from Iran appear to be rapidly declining.

2009 - Dreams that go on: The GCC is faring better than the rest of the world in the current crisis – largely due to their vast financial reserves. Short-term challenges aside, Saudi

[2] This is the amount DPW handles globally through its various port holdings.

Arabia will continue to seek being a large industrial power. It will continue to invest greatly in education and seek to marginalize conservative opponents. The GCC will want to limit links with the West and the US in particular, but emphasize the growth of relations with Asia, especially China and India.

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