



GCC Trade: Opportunity Knocks

By Keith Boyfield

The United Kingdom formally left the EU on 31 January 2020. One thing is for sure, things will never be the same again.

The onus is now on Britain to negotiate new trade deals with as many countries as possible. Those six countries comprising the Gulf Cooperation Council (GCC) represent one of the main prizes to be won.

Leaving the Customs Union offers the UK a new ability to forge free trade agreements and trade deals, but it would be foolish to underestimate the challenges surrounding negotiating such deals.

The good news is that the UK has built up established trading links with the six countries - Bahrain, Kuwait, Saudi Arabia, the United Arab Emirates, Qatar and Oman - that form the GCC. In this context, there is much that binds the countries together, not least the use of the English language and the extensive cultural and educational ties that have been developed over the decades.

Oil and gas dominates the economies of the GCC, generating the greater share of all export earnings and government revenue. The challenge for these six countries is to transform their current tangible oil wealth into intangible human capital, by investing in the education and skills that are needed for a diversified economy with the focus on more value-added, skilled sectors.

In 2015 UK exports to the Gulf amounted to £20 billion, more than sales to China and India combined. Two thirds of UK exports are in goods, primarily machinery such as aerospace products. Just under a third of GCC imports from the UK are in services, primarily in the health and education sectors.

Britain is a favoured location for investment from the Gulf countries. Capital investment continues to flood into the UK. Indeed, Britain is the leading destination for foreign investment in Europe.

Looking forward, from a UK viewpoint there are exciting opportunities across the Gulf, one of the world's most rapidly growing consumer markets. It is worth remembering that the GCC has a young and growing population with a high income per capita. In particular, GCC members are seeking to build capacity in healthcare, education and financial services – all sectors where the UK has much to offer. Dr Liam Fox, a former Secretary of State for International Trade, has cited two examples of where the UK has been successful in supporting Gulf States with their ambitious development strategies. One involves the University of South Wales, which is setting up a new centre focused on advanced aerospace engineering in Dubai; the other involves a British company that has won the contract for the new Duqm port in Oman.

An important role is also being played by the UK's export credit agency, UK Export Finance (UKEF). This is already providing £100 million of financing for the creation of the Dubai World Trade Centre by ASGC UK, a construction company. Phase 4 of the project envisages the building of a hotel that is likely to generate significant business opportunities for UK suppliers.

UKEF is also fulfilling an invaluable role in supporting UK businesses to win export contracts

in Bahrain by lending or guaranteeing loans in Bahraini Dinar, offering buyers of UK goods the ability to 'Buy British, pay local'.

Future Challenges

Nevertheless, boosting trade will require further action by both the UK and the GCC to lower existing barriers. In the Gulf these range from a perceived lack of transparency in public procurement and barriers to entry for foreign investors in the services sector. On the British side, the issue of employment visas is likely to prove a crucial matter.

Yet it is encouraging to see that progress has already been made. In October 2017, the inaugural meeting of a UK-GCC joint working group on trade & investment was held to address restrictions and bottlenecks impeding trade.

Between 2016 and 2017 the GCC implemented no less than 103 reforms in a move to improve the business environment in the region. Saudi Arabia has been the most active, introducing a significant reform plan to improve the ease of doing business in the country, with the underlying principle of involving the private sector in its decision-making. The reform initiative is achieving results: it is commended by the World

Bank this year for topping the global league table as the most improved economy in *Doing Business 2020*.

Significantly, Saudi Arabia is joined by Bahrain and Kuwait among the top ten most improved economies with respect to regulatory reform. Bahrain topped the rankings with the highest number of regulatory reforms (nine), improving in almost every area measured by *Doing Business*. Saudi Arabia and Bahrain are runners-up with eight reforms each.

Business regulatory reforms have been motivated in part by the urgent need for economic diversification. Successful reforms in the United Arab Emirates have served as an inspiration. Hence, Saudi Arabia is intent on promoting the Kingdom as an open world-class investment destination. The Kingdom's "Vision 2030" plan for long-term development encompasses a variety of legal and structural reforms.

A New Trade Deal

Graham Stuart, the UK's Parliamentary Under Secretary of State for International Trade (Minister for Investment), has highlighted a number of key areas in which British trade with the United Emirates, a GCC member, could be quickly expanded. He singled out energy with particular reference to nuclear power. Education,

healthcare and financial services are other promising sectors. Indeed, he acknowledged "there's a whole list."¹

Clearly, the UK government's priority will be to ensure continuity in trade after Brexit, which essentially means replicating as closely as possible the current situation with the goal of moving over to a new trading arrangement that creates no disadvantage on either side. The great prize will be to negotiate a full free trade agreement.

This may be agreed following improved arrangements in specific areas of trade where quick win-wins can be concluded. Fortunately, as the UK will no longer be part of the EU Customs Union and single market, it will have much greater discretion to negotiate such arrangements. But if these benefits are to be seized much will hinge on the skill and resources of the negotiating teams working to forge a new trade deal.

¹ 'Post Brexit Trade Talks between UK-GCC to resume soon, says minister', www.thenational.ae, 16 May 2018.