
The Evolving Trade and Investment Relations between East Asia and the Gulf: From Oil Dependency to Free Trade Agreements

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1. Introduction

The current economic environment, in which the world economic recovery remains fragile following the financial crisis, has proved that continued structural reforms towards liberalization of trade and the pursuits of economic integration is essential. While there is seemingly increasing trade protectionism following the economic crisis, the call for more liberal policies to avoid further recession has intensified.

Economic difficulties in the United States and Europe made it difficult to export to these areas, as the economic crunch weighed heavily on consumers confidence and their buying power. The export-led economies in East Asia were the most affected by declining American and European demand. Meanwhile, the Gulf region had experienced severe economic losses on its international investment made through Sovereign Wealth Funds. At the same time, the slow-paced multilateral negotiations under the World Trade Organization were unable to resolve the complicated barriers, and hammer out the terms of further global trade liberalization. The 2009 Ministerial Meetings in Geneva failed to provide substantial progress in reconciling different interests and resolving outstanding issues. The continued failure to finalize the Doha Round is creating increasing apprehension about the future of trade liberalization under the multilateral framework, and generates the expectation that the benefits of more open and integrated economies will not be achieved in the near future.

The governments of East Asia and the Gulf regions have acknowledged the need for further opening of trade networks. Because of slow progress under the multilateral negotiations, both regions are searching for alternative arrangements to gain from liberalized trade. Bilateral, regional and intra-regional Free Trade Agreements have provided avenues to shift from WTO-led negotiations to alternative geometries. In East Asia, the most important FTAs include ASEAN and regional deals with Japan, China and South Korea. In the Gulf region, members of the Gulf Cooperation Council established an FTA and are in the process of implementing a full Common Market, while at the same time being part of the Greater Arab FTA. At the same time, several countries in East Asia are negotiating FTAs with the Gulf as a region. This development shifted the attention of East Asian and Gulf economic policy makers away from multilateral negotiations, laid the premises for a transformation of economic relations between the two regions from their traditional focus on oil dependency to greater diversification. The purpose of this paper is to explore this evolving nature of East Asia-Gulf economic relations. What are the underlying motives for policy changes? The first part examines oil dependency of East Asia on Gulf oil markets.

The second section delves into the changing trade and investment policies in East Asia and the Gulf, while the third part looks at the intra-regional dynamics between these two regions. The last part scrutinizes the policy challenges both regions are facing. At the end several policy recommendations are made to guide policy makers on the future of East Asia-Gulf relations.

2. East Asian reliance on Gulf oil

For many decades, heavy dependency on hydrocarbon products characterized and dominated the trade relations between East Asia and the Gulf region. From the point of view of the East Asian economies, it is important to maintain a strategic alliance with the Gulf countries to ensure constant supply of oil. In 2007, East Asia imported about half of its oil requirements from the Gulf. With an expanding economy, East Asia's demand for petroleum products is increasing continuously. While Japan continued to be the biggest importer of petroleum from the region by purchasing about sixty percent of its total requirements from the Gulf, growing demand in the emerging economies, such as China and India, has further intensified the reliance of the region on the Gulf's petroleum industry. The region is also increasingly becoming the largest source of Liquefied Natural Gas (LNG) for China, Japan and South Korea. While Malaysia and Indonesia are the largest producers in East Asia, the development of the industry in Qatar and Oman has complemented the needs of East Asian markets.

Additionally, there is an increasing East Asian Foreign Direct Investment in the oil and petrochemical sectors of Gulf economies. Japanese companies have been investing in the region since the early 1960s. Japanese-owned Arabian Oil Company (AOC) operated the Khafji and Hout oil fields located in the Partitioned Zone between Saudi Arabia and Kuwait from the 1960s until the concession ended in 2000. When the concession on these oil fields expired, Japan was able to maintain its interest with a purchase agreement with Kuwait, so that AOC could buy 100,000 barrels per day for 20 years from the Kuwait Gulf Oil Company (KGO), which overtook the oil fields' concession. The Kuwaiti company also accepted to utilize Japanese expertise on oil technology through a technical cooperation agreement. Another Japanese oil company which is active in the region are Inpex, and its subsidiary, Japan Oil Development Corporation, which made substantive investments in the United Arab Emirates offshore oil fields, such as Umm Shaif Field/Lower Zakum, Upper Zakum, Umm Al-Dalkh and Satah. Additionally, Sumitomo Chemical Co and Saudi Aramco have formed joint venture to build the Petro Rabigh Petrochemical Complex worth US\$ 12.5 billion. When finished the 23-plant project is expected to have a refining capacity of 400,000 bbl/day, a 92,000 bbl/day catalytic cracking plant, a 1.25m cracker that can make 1.25 M tonnes/year of ethylene and a gas processing facility that will yield 900,000 tonnes/year of propylene.

Meanwhile, Chinese companies also started to participate in the petrochemical sector of the Gulf. A joint venture company between SABIC and China Petroleum built a US\$ 1.7 billion plant in Tianjin with a capacity of one million metric ton ethylene derivatives (600,000 metric ton polyethylene and 400,000 metric ton of Ethylene Glycol) annually. On the other hand, South Korean firms are active on con-

tracting to develop some of the major oil fields in the region. In 2009, Abu Dhabi Gas Liquefaction Company had awarded a US\$ 1 billion to Hyundai Heavy Industries to build an integrated gas plant on Das Island. On the other hand SK Construction was contracted to build gas compressor units at the Bab oilfields developed by Abu Dhabi Company for Onshore Operations.

However, the recent evolution in the global trade regime encourages both regions to diversify their economic relations from oil-based trade and investments to an expanded one by negotiating bilateral FTA.

3. FTA policies and regional integration in East Asia

3.1 East Asia

The first shift of economic policies from the multilateral framework to regional trade liberalization negotiations in East Asia was seen with the establishment of the Asia Pacific Economic Cooperation forum in 1989 and the ASEAN FTA in 1992.

Trade liberalization in APEC was emphasized by several declarations, the most important of which is the Bogor Declaration of 1994, which called for open trade and investments among its industrialized and developing member economies not later than 2010 and 2020, respectively. The 1995 Leader's Summit in Osaka, Japan and 1996 Leader's Summit in Manila, Philippines determined the phases and mechanisms of trade and investment liberalization for developed and developing member countries. However, trade and investments liberalization issues became contentious in the following years, as the western Pacific side of the region was heavily affected by the financial crisis.

In addition to that, there was a rift on how to proceed with the liberalization of agricultural and fisheries sectors. Japan, South Korea, China and other developing economies with large agricultural sectors opposed the system to call liberalize them. The contentions rooted from the Early Voluntary System of Liberalization (EVSL) on agricultural products. This system was established in the midst of slow implementation of Individual Action Plans (IAPs) to open the access for foreign markets and investors.

At the same time, ASEAN expanded its membership to include the region's transition economies. In addition to the FTA, the Southeast Asian countries also established the ASEAN Investment Area and ASEAN Investment Cooperation Organization (AICO) to boost foreign direct investment in the region. Soon after the implementation of the FTA, intra-regional trade within ASEAN gradually increased, reaching about 25 percent of the total trade. But very soon the Southeast Asian economies were affected by the financial crisis, and trade in the region contracted. As the economies were gradually recovering from the crisis, economic negotiations shifted from the regional framework to more bilateral FTAs.

The first bilateral FTA was signed between Japan and Singapore in 2002 and amended in 2007. For Singapore, it was important to seek market access because its economy relies heavily on trade, as the ratio of its total economic output to trade indicates. In 2008, Singapore's trade to GDP ratio was about 450 percent. For Japan,

this bilateral FTA represented an important change in its economic policies, because previously Japan had been critical of preferential regional and bilateral trading arrangement in many parts of the world, as they tended to isolate most of its economic interests in trade and investments. Soon after, many Southeast Asian economies, such as Malaysia, the Philippines and Thailand sought bilateral deals with Japan. Considering that these countries exports to Japan comprise almost the same products - such as agricultural and fisheries products, electronic machineries and electronic parts - it would be difficult for each one of them if it remained without an FTA with Japan.

Meanwhile, "ASEAN plus One" (either China, Japan or South Korea) FTAs, emerged recently as an alternative geometry for trade and investment liberalization in East Asia. In 2002, China announced that it would negotiate an FTA with ASEAN. It was signed two years later and entered into force at the beginning of 2010. Meanwhile Japan also negotiated a further expanded FTA with ASEAN, and the agreement came into force in 2008. Finally, South Korea and ASEAN signed an FTA in 2005 with a goal of exempting or reducing to less than 5 percent tariffs on 97 percent of South Korean exports to Southeast Asia by 2010.

3.2 Gulf region

In the Gulf region, the Cooperation Council for the Arab States of the Gulf was founded in 1981. A Unified Economic Agreement was signed to promote economic harmonization and efficiency in the region. It was expanded in 2001 to coordinate the foundation for custom, trade and monetary union, including tools such as a common external customs tariff, common customs regulations and procedures, elimination of all tariff and non-tariff barriers among members and harmonization of investment-related laws and regulations. As a result, intra-regional trade had increased five-fold from US\$5.4 billion in 1988 to US\$ 33.9 billion in 2005. Additionally, the establishment of a common market facilitated the movement of citizens across borders to participate in investment and service activities, real estate and equities ownership and formation of corporations. The number of Gulf citizens who were granted licenses to practice economic activities in other GCC countries than their own multiplied three times from 4,750 in 1995 - a few years before the new economic agreement was ratified - to 14,655 in 2005 - after the ratification of the accord.

The number of joint stock companies in which citizens of other Gulf States may acquire equity increased from 42 in 1985 to 481 in 2005 and 524 in 2006. Kuwait has the largest number of joint stock companies whose equity may be owned by citizens of other Gulf countries- 181 in 2006. At the same time, the total capital of these joint stock companies grew from US\$ 22 billion in 1985 to US\$ 76 billion in 2005 and US\$ 93 billion in 2006. Saudi Arabian stock companies have the largest equity base, which constituted about half of the total capital on tender.

The GCC also agreed to renew the joint industrial development in the region by launching joint infrastructure projects and encouraging cooperation in basic services such as transport, communications, electricity; information technology; health, education, and tourism projects; and the oil and gas industry.

The GCC is also part of the larger, Greater Arab Free Trade Area, which in 1997 agreed to reduce tariff and other barriers gradually. The target date for full imple-

mentation was moved from 2008 to 2005.

As a block, the GCC is also actively pursuing several FTAs with non-Arab partners. Negotiations for an EU-GCC FTA started already in the 1990s, but have not been concluded yet, due to the political clauses demanded by the EU, concerning democratization and human rights. Aside from that, the GCC signed FTAs with Syria and the European Free Trade Association (Iceland, Lichtenstein, Norway and Switzerland) in 2008, and is currently negotiating with Australia, Jordan and Turkey.

4. Drivers of East Asian-Gulf FTAs and integration

The shift towards bilateral free trade arrangements could also be traced to increasing regional integration outside these two regions, including the establishment of the North America Free Trade Area and the expansion of the European Union. This means that without their own preferential trading arrangements, East Asia and the Gulf could be in disadvantageous position, as these regions could not trade at privileged tariff and other trade measures such as faster custom clearance and rule harmonization, with the members of FTA elsewhere in the world. Regional arrangements are also used to advance trade interests during negotiations at the WTO.

In addition to the trade creation effect of the regional and bilateral trade agreements, another economic driving force is related to foreign direct investments. Most bilateral and regional trading arrangements are WTO-plus, which means that besides the liberalization packages under the auspices of the WTO, the countries involved entered into several other agreements to further liberalize their economies. These new agreements involved investments provisions, competition policies and cooperation on technology and knowledge transfers.

On the other hand, while their economic benefits are evident, bilateral and regional trading arrangements also create trade diversions and protectionism. Efficiency of production could be affected, as market share is diverted from more efficient producers in non-member countries to less efficient producers in member economies. It could also mean that trade and investments could slip out from these regions to other areas if there are no comprehensive economic agreements between them, while they have with others. For instance, Gulf region imports most of its electronic manufactured goods from East Asian markets, which has relative advantage on this sector. If the Gulf continues to pursue FTAs with Europe and the US, it could import much of its requirements from these areas because of preferential treatments, thereby diverting trade from East Asia. This could also happen to other sectors such as petrochemical, automobile and transport equipments, steel and agriculture and fisheries, among others. As direct investments and business facilitations are becoming an integral part of FTA, its growth could be jeopardized without comprehensive agreements. Japan is one of the most active direct investors in many regions While China is one of the biggest recipients of investments, many of its large companies are starting to move overseas, which could benefit the Gulf region in its diversification initiatives. On the other hand, the Gulf region has plenty of petrodollar surpluses, which is evident on its large Sovereign Wealth Funds. These funds could be used to invest in sectors such as petrochemical and Islamic finance. It is for these reasons that East Asia and the Gulf are approaching the recent FTA trend with economic pragmatism.

The trade between East Asia and the GCC continued to increase in recent years. The intra-regional trade had increased 20 percent from US\$19.1 billion in 1996 to US\$22.9 billion in 2007, as seen in Table 1. While in the past, more than half of this trade based on hydrocarbon products, a new structure of trade relations between East Asia and the Gulf economies is emerging with the conclusions of FTAs between them.

The first FTA to be signed involving East Asia and the Gulf regions was the GCC-Singapore agreement in 2008. While Singapore had several bilateral FTAs previously, the agreement was the first for the GCC as a bloc, which signaled the GCC's desire for further trade liberalization in the midst of deadlock of its negotiations with EU. The GCC was Singapore's sixth largest trading partner, with bilateral trade reaching a record high of US\$ 28 billion in 2007. The agreement allowed tariff elimination for about 99 percent of goods traded between Singapore and the GCC. It also involves agreements on investments and movement of business people to facilitate greater economic activity in areas such as construction and computer, environmental and professional services. For instance, under this agreement Qatar could license wholly owned Singaporean companies to set up businesses if they demonstrate sufficient expertise in any economic sector. This is a preferential treatment, as Qatar only allows less than 50 percent foreign equity participation. For Singapore, the accord could also be a tool to tackle the current financial crisis, as Prime Minister Lee Hsien-loong argued at the signing of the agreement: "we are tackling immediate problems but at the same time, we are also putting in place measures which will be beneficial to our economies in the middle- to long-term, and this GCC-Singapore FTA is one example of that" as a response to the global financial crisis.¹

Meanwhile, the GCC also started to negotiate FTAs with Japan and South Korea. In 2005, *Nippon Keidanren*, the largest association of businesses in Japan, called for early negotiations for preferential trading agreement with the GCC bloc. The proposal was rooted on the fear that the "competition among the leading countries and regions of the world is currently intensifying in the GCC markets, and the GCC countries have already started negotiating free trade agreements (FTAs) with these countries and regions, excluding Japan. Japan cannot afford to be left behind such initiatives taken by other countries and regions."² In addition to obtaining preferential treatment for automobiles, auto parts, and trucks in the category of transport equipment; and for electronic and electronic parts (these two products categories accounts for most of Japanese exports to GCC), Japan was also keen on negotiating away the restrictions imposed on foreign capital, the maximum allowed equity participation of foreign investors (which is under 50 percent without the agreement), and the requirement to employ local workers. Japan also wished to expand GCC's preferential treatment to the petrochemicals, electric power and water supply sectors. Already, Japan is one of the biggest investors in the GCC's petrochemical sector but it was eager on displaying its latest cutting-edge and environment-friendly technologies. Once the FTA is signed, the GCC could attract massive investment from Japanese companies; in 2006 these stood at US\$ 2.038 billion in Saudi Arabia, US\$ 1.09 billion in UAE, US\$ 419 million in Qatar, US\$238m in Bahrain and \$21 million in Oman.³

1 *The Singapore Strait Times*, "Singapore, Gulf states sign landmark trade pact," 16 December 2008.

2 Statement of the *Nippon Keidanren*, 13 September 2005.

3 *Emirates Business*, "UAE-Japan to benefit from FTA", 24 June 2008.

Japan and the GCC started to negotiate a preferential trading arrangement in September 2006 and held two rounds of negotiations until January 2007. After that, there were no high-level consultations, which created mixed signals on how the trade policies between the two countries would proceed. On the other hand, GCC's FTA negotiations with South Korea gained much faster momentum, as three high-level negotiation rounds were held since President Roh Moo-hyun visit to the region in March 2007. The bilateral FTA could increase South Korean investment in the construction and shipbuilding industries, in addition to its existing contracts to build petrochemical plants, financial centers and transportation infrastructures in the region. For instance, Korea's currently negligible US\$ 180 million direct investment in the Emirates is deemed to have the potential to expand fivefold if the bilateral agreement is signed. The FTA is expected to be signed at the end of 2009 or early 2010.

On the other hand, Gulf countries also started to invest in other East Asian countries, although there were no substantial negotiations for an FTA. In 2008, during the visit of Indonesian President Susilo Bambang Yodyohono to the region, several investments agreements were signed including Ras Al-Khaimah Investment Authority projects to construct an integrated port at Tanjung Api-Api and a railway line from Palembang to Tanjung Api-Api worth US\$1.3 billion. Qatar Telecom became the majority owner of the Indosat in 2008 with the increase of its share from 29 to 65 percent with an investment worth US\$ 1.8 billion. Meanwhile, the Saudi Binladin Group had started financing its agricultural projects in the Indonesian island of Papua. The project which has estimated price tag of US\$ 4.3 billion would ensure reliable supply of rice and other agricultural products for the Saudi market.⁴ In 2009, the Far East Agriculture Company, a group of ten Saudi companies, discussed with the Philippine government to set up joint ventures to produce and trade agricultural products such as banana and pineapple.⁵ On the other hand, Qatar Telecom also entered the Philippine telecommunication market with the acquisition of the 33 percent ownership of the Liberty Telecoms. It also entered a joint venture project with the San Miguel Corporation to enter in the broadband and mobile telecommunication in the Philippines. The project has yet to commence. Meanwhile, the Malaysian government and Saudi Arabia's Petro Saudi International have set up a US\$ 2.5 billion investment fund in Malaysia in 2009. Petro Saudi would invest US\$ 1.5 billion while remaining capital would be raised by the Malaysian government through bond offerings. The investment fund would be used to finance renewable energy and real estate projects.⁶

It is not only through trade and investments that these two regions are cooperation, but Japanese and South Korean also on contracting large-scale infrastructure projects in the GCC. Before 2009 ended, Korea Electric Power Corp (KEPCO) -led consortium won landmark contract to build four nuclear reactors in the United Arab Emirates. The project, which is valued at around US\$ 20 billion, also involved Korea's Samsung and Hyundai.⁷ The project, which is considered as the region's largest-ever

4 However, it is being delayed due to difficulty to acquire several land parcels from local population. *Reuters*, "Indonesia says land acquisition stalls Binladin rice investment" 26 October 2009.

5 *The Philippine Daily Inquirer*, "Saudi firm looks at Philippines as food hub" 23 September 2009.

6 *Reuters*, "Malaysia gets \$1.5bn Saudi investment" 30 September 2009.

7 *Wall Street Journal*, "South Korea Consortium Gets \$20.4B UAE Nuclear Contract" 28 December 2009.

energy deal, is described by UAE President Sheikh Khalifa bin Zayed al Nayan as a "new stage of strategic partnership" between the U.A.E. and South Korea." Korean companies are also active in constructing high-rise building in the UAE. The most prominent of which is the newly-opened, Burj Khalifa, in which Samsung Engineering and Construction Group is the main contractor.

In Saudi Arabia, KEPCO also won a contract to from Saudi Electric Company (SEC) to build, own and operate a power plant for a period of 20 years until 2033. The project which, cost US\$ 2.5, is expected to generate 1,200-megawatt of power supply for the western city of Rabigh.⁸ Another South Korean infrastructure conglomerate, Doosan Heavy Industries and Construction, was awarded contracts to build a 1,330-megawatt power plant near the eastern city of Damman. The project which cost US\$ 1.05 is expected to be operational by 2013.⁹ Samsung Engineering was contracted to build two refinery plants of the Jubail Export Refinery Complex project under the consortium of Saudi Aramco and Total of France, which amounted to US\$ 1.6 billion. In Qatar, Hyundai Engineering and Construction, together with Italy's Saipem were awarded the contract to build a fertilizer plant worth US\$ 610 million by Qatar Fertiliser Company.¹⁰

Meanwhile, Japanese companies are active in building the urban railway projects in Dubai. In July 2005, the government had awarded the US\$ 3.4 billion contract to Mitsubishi-led consortium to build the planned 69.7 kilometer Dubai Metro lines.¹¹ The consortium also involved Obayashi and Kajima of Japan, and Yapi Merkezi of Turkey. On the other hand, Marubeni, Hitachi, Obayashi were contracted by Dubai's Nahkeel to built the passenger monorail system, which will connect the city's mainland and the reclaimed Palm Jumeira island.¹² Other Japanese companies, which are involved in the project included Nippon Signal Company and Omron Corporation.

5. Overcoming trade and investment policy issues in East Asia and the Gulf

The momentum on inter-regional preferential trade agreements, although constantly delayed by deadlocks on specific trade barriers, seems to continue as additional countries in East Asia are expected to negotiate FTAs with the GCC, including China, Malaysia and Thailand. However, the two regions need to overcome some policy challenges within the domestic spheres. These challenges include the reliance on subsidies, import quotas and high import tariffs to protect inefficient domestic industries. In both regions, agriculture production is heavily protected and, not only from trade but also from foreign investment. In Japan, agricultural production is subsidized by the government through preferential loans and development assistance while main-

8 *Energy Business Review*, "KEPCO-led Consortium Signs Contract With Saudi Electricity Company" 13 July 2009.

9 *Business Middle East*, "South Korea's Doosan wins US\$1.05 billion Saudi power plant deal" 17 September 2009.

10 *Maktoob Business Online*, "Hyundai, Sepiem win \$610 mln Qatari contract" 11 October 2009.

11 *International Railway Journal*, "Dubai Metro contract awarded" July 2005.

12 *Japan Corporate News*, "Marubeni, Hitachi, Obayashi, Others Sign Dubai Monorail Construction Contract" 28 December 2005.

taining very high duties on inbound agricultural products, which currently stands between 4.5 to 130 percent. In South Korea, the inbound tariff ranges from 20 to 180 percent. In fact, these protectionist measures were the cause for several deadlocks when Japan and South Korea started negotiating FTAs with Malaysia, the Philippines and Thailand, which were agriculture export oriented economies. For instance, Thailand's apprehension for signing the FTA with South Korea stemmed from the latter's refusal to reduce the tariff on Thai rice imports. As put forward by Deputy Prime Minister and Commerce Minister Somkid Jatusripitak, "rice is a very important issue for Thailand because 70 percent of our people are farmers"¹³ Thailand also refused to allow foreign full-ownership of any company in the agricultural sector. In Malaysia, barriers on trade and foreign direct investments are more all-encompassing, with the continuing implementation of the Bumiputera development policy, which prioritizes the majority yet economically marginalized ethnic Malay population in every sector of the economy. The agriculture sector, particularly production of palm oil, is protected through high duties on foreign imports, and exports are promoted through export allowances and export credit schemes at a preferential rate. Therefore, if the GCC would like to sign FTA with agriculture export based countries in East Asia, it has to substantially reduce its agricultural tariff. In the UAE the final bound duties for agricultural products currently stands between 15 to 135 percent, while Saudi Arabia imposes duties between 13 and 168 percent.

Trade barriers also hinder free trade in the manufacturing sector. As part of the Bumiputera policy, Malaysia imposes high tariff on automobile imports to protect Proton. Although Thailand has no nationally-owned automobile companies, the country is protecting and promoting the industry as part of its industrialization goal, including becoming an automobile manufacturing hub. Textile industry is also protected in Thailand as it imposes 20-30 percent tariff on all imports. Meanwhile, China also discourages trade through its Policy on Development of the Automotive Industry and Steel and Iron Industry Development Policy, which limits imports of automotive parts, steel and iron while at the same time promoting the use of domestically manufactured products.

In the area of foreign direct investment, most of the restrictions in the two regions are related to foreign ownership of several industries. Malaysia is limiting foreign ownership to 30 percent in sectors such as telecommunications, distribution and commercial banking. Foreign ownership in Thailand's financial sector is also limited to 49 percent while at the same time foreign banks are restricted to establishing no more than a single branch, and with limited personnel. In China, restrictions on financial sector include 25 percent maximum foreign ownership in a Chinese bank. If the foreign equity increases beyond 25 percent, the bank will be classified as foreign financial institution, thus more restrictive policies would be imposed. Investment in the insurance sector is limited to joint ventures, while in the telecommunication sector it is limited to 49 percent for landline phone businesses and 50 percent for value added-telecommunication sector. Aside from restrictions on equity, FDI in China is also limited by divestment policies, wherein the transfer of capital to the offshore market requires the approval of several regulatory agencies.

13 *Asian Economic News*, 10 December 2005

Likewise, the GCC economies also maintain several limitations on foreign investment. In Kuwait foreign companies are not allowed to engage in the upstream oil hydrocarbon production, while limited joint ventures between Kuwaiti and foreign companies in petrochemical sector are allowed.

In Bahrain, although foreign distribution services companies could establish branches in the country, they are not permitted to engage in direct commercial sales in the domestic market, including wholesale and retail. The UAE permits 100 percent ownership of companies within the free trade zones but only up to 49 percent outside the area. While the UAE central bank permits foreign banks to operate limited branches, it is prohibited from granting new licenses to foreign banks to operate as full fledged financial institutions. Other services sectors, such as telecommunications, remain closed to foreign ownership.

Saudi Arabia maintains severe restriction on foreign ownership in the country. Foreign entities are allowed to own up to 60 percent but they are still prohibited from participating in the stock markets in the country. The cap on foreign ownership is much lower in the banking sector, where maximum foreign participation is 40 percent. Moreover, foreign investors are only allowed to own no more than 10 percent of an investment funds in the banking sector but nonetheless, permitted to own private banks with a 60 percent ownership limit. Also, the Kingdom's Supreme Council approved a decree prohibiting foreign participation in investment related to oil exploration, drilling and production, and those related to military hardware, which are reserved to the state.

Another obvious restriction on foreign ownership is real estate property rights. Although citizens of the Gulf region are allowed to own limited real estate within the region and outside their own country, other foreigners are prohibited to own real properties at varying levels. In the UAE, foreign nationals, outside the GCC, are not allowed to own parcel of lands. However, they are allowed to own buildings under a free-hold system of varying duration. In Qatar, foreign investors are limited to lease land for not more than 50 years and subject to government approval thereafter. However, Qatar permits foreign entities to own units in some of Qatar's residential blocks, subject to residency permit given by the state. The same arrangement is found in Bahrain, but it also allowed foreign entities to own properties in tourism and financial sectors.

Evidently, there are policy issues in which both East Asia and the Gulf must overcome if they want the momentum of intra-regional trading and investment arrangements to move forward at much faster rate. First, in order to lessen the adjustment burden of sensitive industries in these regions as highlighted above, it is important to implement immediate structural adjustment. Structural adjustments are economically important in order to achieve efficiency. Nonetheless, they are politically difficult to implement. A win-win solution could involve gradual implementation of restructuring processes coupled with social adjustments such as compensation, reeducation and job training for the sector that will be affected by the reforms. In Japan, structural adjustments in agricultural policies is integrated in its FTA policy agenda, thus, there is a precedence, in which other countries could take into consideration.

Trade and investment facilitation should also part of any comprehensive economic agreements. This procedure is wider in context, which not only involves tariff rate reduction but also harmonization of trade and investment related procedures and

standards. It also involves simplification of rules of origins. Furthermore, it is important to initiate private sector development, and promote them through intra-regional networks, because ultimately, it is the private sector which will facilitate the implementation of any trade and investment agreements.

On the political side, the head of states of both regions should consider a summit together in order to promote a deeper intra-regional integration. Without any profound political support, the momentum and enthusiasm towards intra-regional integration could decline. Therefore, the governments of these regions should give a serious consideration on the importance comprehensive economic relations in their overall economic development policies. Equally important is the role of academic institutions to conduct different researches, such the effect of future intra-regional agreements, and make substantial policy recommendations to facilitate the decision making processes of government officials.

Lastly, while there challenges on trade and foreign investment in both East Asia and the GCC, the recent policy shift to liberalize the economy through bilateral free trade agreements is a positive move to reap the economic benefits of economic interdependence. These benefits include increased trade and investment through competition and efficiency, which could catalyze the expansion of economies. Indeed, the global trend of liberalizing economies through FTA facilitates the convergence of East Asia and the GCC economies by encouraging countries on both sides to negotiate and compete for better preferential treatment on trade and investments. This recent trend also shows the development of economic relations between East Asia and the Gulf from a more oil-centric trade and investment to more diversified one.

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Table 1 East Asia-GCC trade (US\$ thousands)

	Bahrain		Kuwait		Oman		Qatar		Saudi Arabia		UAE		Total
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	
Brunei	22	0	0	38	83	163	40	31	1692	569	3070	3775	9483
Cambodia	6	95	0	3987	293	99	371	652	4488	1798	3528	7527	22844
China	395,267	582,192	2,785,311	3,629,256	6,469,015	7,270,291	998,790	1,208,882	19,211,577	11,383,283	14,201,525	20,035,647	881,710,336
Indonesia	70,307	73,723	1,597,188	1,835,187	57,924	103,221	155,094	282,328	4,056,463	4,317,111	1,413,396	1,515,232	15,477,174
Japan	1,077,464	1,104,913	10,290,290	11,581,240	4,404,148	6,106,411	16,255,864	18,762,963	40,457,905	70,859,397	37,622,488	40,410,497	258,933,580
Laos	1	0	0	92	0	580	0	0	131	365	215	687	2071
Malaysia	195,022	183,883	468,169	767,405	984,507	619,433	266,138	316,487	2,920,028	2,833,175	3,234,872	4,238,876	17,027,995
Myanmar	1,445	1,095	0	5,440	1,766	1,126	10	0	794	2,372	32,165	40,265	86,478
Philippines	12,455	21,882	75,431	92,295	1,726	2,212	52,058	351,284	3,136,261	3,723,954	524,322	1,501,024	9,494,904
Singapore	411,593	306,330	4,633,203	5,322,011	327,939	382,997	2,616,743	4,432,327	10,045,159	9,639,560	7,359,573	8,083,469	53,560,904
South Korea	466,268	522,422	8,803,100	10,052,530	5,473,031	4,356,305	7,745,311	9,617,362	23,530,408	25,188,996	15,826,851	16,360,649	127,943,233
Thailand	295,862	225,346	480,778	385,397	3,020,028	2,876,533	1,753,114	2,265,835	5,505,567	6,001,976	8,670,806	9,071,487	40,552,729
Vietnam	14,224	12,941	156,022	41,145	9,428	21,250	35,452	83,994	151,584	182,617	184,616	344,227	1,237,500
Total	2,939,936	3,034,822	29,289,492	33,716,023	20,749,888	21,740,621	29,878,985	37,322,145	109,022,057	134,135,173	89,077,427	101,613,362	

Source: International Trade Center