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PRIVATIZATION IN THE GULF COOPERATION COUNCIL GCC COUNTRIES: ISSUES AND CHALLENGES

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DECLARATION

DECLARATION BY THE GUIDE

This is to certify that the **Mr. KARTHIK BABU K.S**, a student of MBA (OIL & GAS MANAGEMENT), **SAP ID 500066785** of UPES has successfully completed this dissertation report on **"PRIVATIZATION IN THE GULF COOPERATION COUNCIL GCC COUNTRIES: ISSUES AND CHALLENGES"** under my supervision.

Further, I certify that the work is based on the investigation made, data collected and analyzed by him and it has not been submitted in any other University or Institution for award of any degree. In my opinion it is fully adequate, in scope and utility, as a dissertation towards partial fulfillment for the award of degree of MBA.

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EXECUTIVE SUMMARY

The State has been in the central of development regime of the developing countries. Historical legacy and the political imperatives made the State to be a key player in the economy of these countries. However for various reasons, which are not the subject of study here, the State led development regime if not failed, at least is perceived to have failed to perform. The so-called 'failed State' regime obviously needs to be changed.

Like most of the developing countries, in the GCC countries too, the prescription for going to privatization has come from external agencies like the World Bank (IBRD) and the International Monetary Fund (IMF). Further, these two agencies are providing the possible trajectory as consultants. The study wants to examine the sustainability of the framework suggested by these two agencies and evaluate the institutional strengths and weaknesses of the countries to pursue it.

The study is based on the economic aspects of privatization in the GCC countries. It is an examination of the privatization process undertaken by the GCC countries in the non-oil sector.

The proposed study is descriptive and analytical in nature. During the course of the study both primary and secondary sources are used. The primary sources include the GCC countries' Government Documents, Year Books, and Statistical Abstracts, the United Nations Surveys, Documents, and Statistical Abstracts, the World Bank Publications of Books and Journals, and IMF Publications of Books and Journals on GCC countries.

The first chapter highlights the privatization and the rentier economy, and it explains what are the causes, which compelled the developing countness to go for privatization. The study also examines the role of the external agencies; the World Bank and the IMF, which have provided financial assistance to the developing countries in the name of privatization programme.

The second chapter emphasises the country-wise privatization programme in the GCC countries, namely, Saudi Arabia, Kuwait, and the United Arab Emirates. These countries started privatization in the 1990 onwards, but owing to decline in their oil revenues, the GCC countries' economies face major challenges, such as, declining oil revenues, deficit budgets, subsidies, increasing defence expenditure, and high population growth.

The third chapter underlines the country-wise privatization programme in Bahrain, Qatar, and Oman. These three countries have less oil reserves comparatively what neighbours have.

The fourth chapter makes comparative study of the privatization in the GCC countries, emphasising on issues and challenges. The GCC countries have adopted different strategies and methods in dealing with the private sector.

During the oil boom period, population growth was not the problem. Huge oil revenue made the Government to provide better facilities to their citizens.

The UAE Government has faced some problems while implementing privatization programme. The main issue was the creation of employment opportunity to the nationals. The Ministry of Labour and Social Affairs has given top priority for the recruitment of the UAE nationals into the private companies.

In the previous two chapter case studies of the GCC economies have provided the issues and challenges faced by the individual countries. The common issues emerging out are studied in comparative perspective in this chapter. The GCC countries share among themselves, common language, common cultural and institutional heritage, as well as common economic and social challenges. All of them have been heavily oil dependent economies, despite the fact that all are not equally richly endowed with the 'black gold.'

Privatization theory argues that its primary objective is to promote economy efficiency leading to optimal allocation of resources, and mobilise new investments to reduce the financial burden on the State. Privatization m the rentier economies of the Gulf has been so far a mixed result. Though the plans have been adequately conceived, to some extent they are implemented but there are issues structural in nature to be overcome to optimise the gains of privatization. The study underlines that the political consolidation, which oil rent provided is now sought by the ruling families by taking over the command of the private sectors. This could bring new deviations and distcertions affecting the very rationale of the privatization process. Privatization does not mean reflecting of public monopolies by private monopolies. It ought to generate a competitive ambiance so that the resources could be used be optimally utilised. On thus score the GCC experience has yet to provide evidence. However in defence of the GCC it could be analysed that the process is still in transition.

CHAPTER - I

INTRODUCTION OF THE STUDY

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CHAPTER 1

1.1 INTRODUCTION OF THE STUDY

The State has been in the central of development regime of the developing countries. Historical legacy and the political imperatives made the State to be a key player in the economy of these countries. However for various reasons, which are not the subject of study here, the State led development regime if not failed, at least is perceived to have failed to perform. The so-called 'failed State' regime obviously needs to be changed. The redressal of State failure is being sought by bringing market into the central. Privatization is one of the components of market led economic regime. "Privatization, in a narrow definition, is an art of sale of the public sector enterprises to the private sector, in that it involves the transfer of public sector assets to the private sector. However, in a broader sense it includes the deregulation and commercialization of economy to prepare the ground for greater participation of the private sector in the economic activities". In case of the GCC (Gulf Cooperation Council) countries, namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE the State has been the dominant economic player. The reinter nature of the economy further added to the centralized character of the State even at the cost of the private sector. The decline of the rent, i.e., the oil revenue, has forced these countries to go for structural changes making privatization a major plank of economic policy. Privatization creates its own losers and gainers; consequently, resistance from the losers, thus, has political fallout. Further, it demands its own institutional set up including the legal regime. The present study aims to look into the issues and challenges that the Governments of the GCC countries are facing in implementing the privatization programmed.

The role of State and market in an economy is defined by a number of factors including history. The developing economies perused the economic model with the State having control over the commanding heights out of economic and political imperatives of their development stage. In the context where colonization thwarted the national course of evolution leading to under-development of social economic formation and institutions creating grounds for market led growth, the choice became confined to the State dependent growth. The State in fact acquired the developmental role normally undertaken by the entrepreneur class. In other words, inadequate growth of market institutions, underdeveloped entrepreneurship made it necessary for the State to be the active agent of change and development. In both inward and outward looking economic regimes, i.e., import substitution and export promotion, the State has been having primary role. The economic clout of the State contributed in political dominations of the State. The nexus between the politics and economies of State dominion created distortions into the system making it unsustainable. The State became more a patron in distributing resources for political dividend than economic needs. One of the serious consequences of these developments was the fiscal crisis of the State. Faced with acute crisis of resources, the State when approach the international lending institutions-IMF and IBRD for rescue, it was advised to bring corrections in the economy by undertaking structural adjustment policy and reforms. The package among other recommendations emphasized the need to restrict the size of the 'overdeveloped state' and promotion of the private sector. The rational for privatization is thus emerged for the economic reform. This chapter examines the privatization of the developing countries and, outlines the major issues of privatization in the context of retire economies. Oil exporting countries are characterized as the rentier economies because they are totally dependent on earnings from hydrocarbon.

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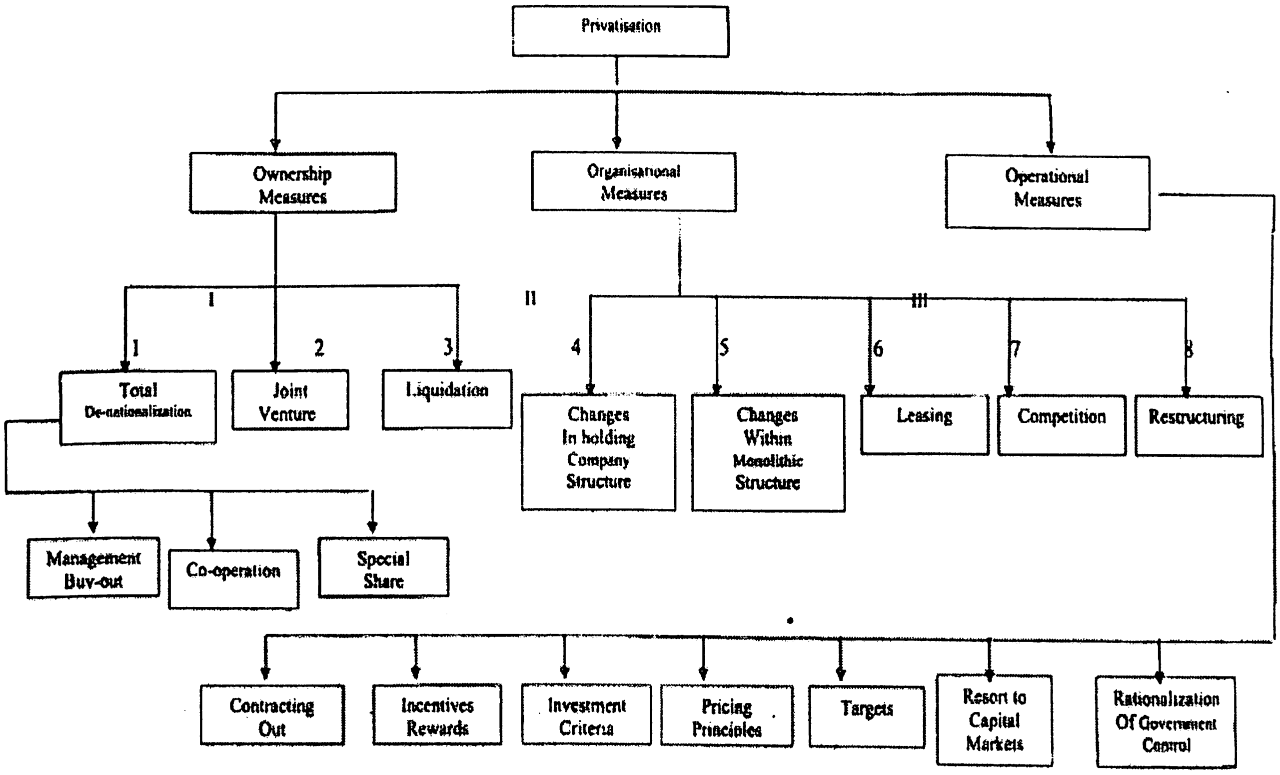


The past two decades, especially the 1990s, have witnessed private sector involvement in the production of goods and services in the developing countries so far with the public sector. Greater private sector participation in the economy has occurred not only in the management and financing of State-owned enterprises (SOEs), but it has substantially transferred the State-owned assets to the private sector. The transfer of SOEs has taken place in public utilities sectors, such as power, water and telecommunication. The main cause of the privatization getting important role in the developing countries has been the economic slowdown in most developing countries in the 1980s promoting the need to rethink the prevailing macro-economic policies, which were public sector oriented, highly protectionist and became non-sustainable. The expanded role of the State through the public sector led to the over extension of its role; the expansion of the public sector on the one side, and declining available resources, on the other side, contributed to the economic slowdown. Most of the developing countries implemented economic reform policies with the aim of achieving more liberalized and deregulated economies and building a new regulatory and institutional frame work as part of drive to transform their economies. Under these conditions privatization programmed got important role in the developing countries.

Privatization as a process could have different types, like the following:

(I) Partial Privatization: This type of privatization will follow the government, which may be reluctant to initiate privatization because of the fear that it will lose control over crucial aspects of national industrial development. It is possible to over come this fear by demonstrating that government's interests can be protected after divestment by a variety of devices. It involves through joint venture participation by public and private sector on a 50:50 basis but it does not involve complete privatization process.

(II) Mass Privatization or Voucher: Mass privatization (also called voucher or coupon privatization) is widely used in transition economies. Mass privatization is based on population-wide distribution of voucher or certificates free of charge or for a nominal fee usually these vouchers are distributed to all adult citizens. The rationale behind this type of privatization is that ownership of assets of the means of production was considered to be belonged to the people as a whole, represented by the State. Advantage of Mass privatization lays the speedy transfer of assets from the State to individual shareholders. This has also helped to lessen the uncertainty of sales, and reduce the effects such as of asset stripping. "People's Capitalism" has been introduced through this method by creating wider share ownership. This type of privatization supports the development of capital markets.

(III) Management Contracting Privatization: Management contracting as a means of rescuing State-owned enterprises (SOEs), which are chronic money losers, has come into increasing favor in the developing world as pressures to reduce subsidy costs rise and greater efficiency is demanded of the enterprises. In its simplest form, a management contract is an agreement by a firm to provide management control and opening functions of a company in return for a fee. The goal of management contract is to produce cost effective and profitable operation. Management contracts universally have three elements-the owner, the managing firm, and the personnel who are assigned as employees of that firm to carry out the responsibilities required under the contract.

(IV) Contracting out Privatization: This form of privatization, the most common one especially at the State and the local level, is the contracting out the functions, where the government finances a service but hires contractors to provide it, on behalf of government, to certain individuals or groups. This includes not only commercial services, but also basic human services. One benefit claimed for this type of privatization is that it gives greater flexibility to government by not having to keep a costly function in-house. It also said that contracting out invites competition and therefore enables a public manager to have a greater opportunity of finding a more innovative or less expensive service. 10 Many municipality services have entered into contracting out privatization process.

(V) Small Scale Privatization: It aims to eliminate State (Municipal) monopolies in the fields where relatively small scale, for example, shops or workshops are active and they would be sold or leased strategically.

(VI) Large Scale Privatization: Large and very large SOEs are converted often having their monopolies, broker and undergo division into smaller companies before being sold to private sector.

Privatization definition relates to its objectives and methods. "Privatisation can be defined in terms of three kinds of rights: ownership rights, operating rights and development rights." However, in general, there are several methods that have been used by many countries.

They are given below:

(l) Sale of State-Owned Enterprises Shares through the Stock Market

This is the most widely used method in privatization; particularly developing countries have developed an active domestic market. The main advantage of this method includes promoting transparency, wider participation of the public in the programed and contributing for the development of the stock market, which would also contribute to increase in the in-flow of foreign private capital.

(2) Sale to Strategic Investors

This method is widely used when the main objectives acquire new technologies, production techniques and new export markets. This will carry out open building to ensure transparency

(3) Sale to Employees and Management

This method is applicable for small companies; there is no urgent need for the in-flow of new technology. However, only a small number of SOEs are privatized through this method

(4) Public Auction

This method involves open public auctions, and the sale goes to the highest bidder, which can ensure a high price for the firm. It is a simple method and performed fairly. It is applicable to small companies where there is no need for comprehensive restructuring

(5) Mass Privatization

This method's main objective is to carry out a comprehensive privatization process in a short period of time where the domestic capital is limited. The main idea for the State to provide vouchers at minimal prices or free of charge is that the holders of these coupons are allowed to exchange them for shares in the privatized SOEs.

In the GCC countries these methods were used in implementing privatisation programed. However, the main methods were sale through stock market and sale to a strategic investor; these methods, build-own-transfer (BOT), build-own-operate (BOO), and build-own-operate-transfer (BOOT), were widely used in infrastructure sector privatisation. Privatisation has become part of economic strategy of the developing countries. The main factor prescribed to go for privatisation process was the debt crisis of the early 1980. Other factors included are macro-economic instability, low economic growth, fiscal burden of State enterprises, and balance of payment crisis etc.

Broadly these factors could be classified as two pressures, i.e., (I) Internal pressures, and (ii) External pressures. Internal pressures include (I) fiscal crunch (ii) balance of payments (BOP) deficit. Most of the developing countries were undergoing financial difficulties in terms of financing Government expenditures. Persistent large deficits in Government budgets were common to most developing economies. On the external front, the bleak development aid situation and export markets have contributed to financial crisis have aggravated the deficits in BOP. Many economics were forced either to reduce their domestic expenditure plans or to search for new sources for revenue. External pressures for privatisation are identified from,

(i) IMF structural adjustment policies
(ii) pressures from foreign investors' eminent institutions (the World Bank and Asian Development Bank), and other development financing agencies, and
(iii) export obligations.

The influences of international financial institutions were prominent in most developing economies. Distinction between internal and external pressures becomes important in terms of the strategies of privatisation and enhancement of Governmental capacity to plan and implement them. Over three decades of national independence in the developing countries, enterprises owned by the State have produced a staggering burden of subsidy cost for their governments. State-owned enterprises borrowing on the international market added substantially to the overall national debt. The World Bank (1983) also highlighted the developing countries problems, i.e., the budgetary cost of SOEs in the developing countries shows that budgetary payment of non financial SOEs averaged than three percent gross domestic product (GDP), and some countries much more: for example, in Zimbabwe, more than ten percent: in Sri Lanka, eleven percent: in Tanzania, five percent etc. At the same time these countries Governments have provided the high subsidization. Growing demands of national revenues for increased public services and new infrastructure facilities further added urgency to the search of relief.

Many developing countries want to improve their international competitiveness and were keen to provide a more attractive business climate for private economic activity;

1. Promoting Economic Efficiency

The public sector has been facing the problem of efficiency in developing countries; it was analyzed that the privatisation will provide greater economic efficiency. It will promote better utilization of resources and remove inefficient and non-competitive PSEs.

2. Competition

Absence of competition has been the typical feature of developing issue of privatisation, which will provide greater competition in the market. Economists have recognized that competition is the single most factor that determines the efficiency of an enterprise. Leading to many distortions, it is agreed that the absence of competition in the PSEs leads to the less efficient producti0li of goods and services.

3. Increasing Employment Opportunities

Optimizing the Use of National Force. Developing the nation's human resources is basic element of national development, therefore the privatisation programed will attach particular importance to it, and it attract the enterprises of new direct investments to help absorb the national work force.

4. Foreign Participation

Privatisation is likely to bring foreign participation; hence, it expands the opportunities available to the firm. Majority of the PSEs in the developing countries faces financial shortages, and involvement of foreign participation will increase potential revenue from the privatisation process.

5. Extent of Divestiture

The fifth issue of privatisation will take the divestiture form; which specially applies for foreign investors. A full divestiture constitutes, i.e., transfer of 100% of ownership and control to the foreign buyers. Most of the countries for security point of view do not give 100% permission to the foreign investors. Only partial divestiture, i.e., anything less than 100% of transfer, take place in wide spread participation of the foreign investors. It helps in determining a fair price for the enterprise in an unknown environment, and thus boosts future revenue of the Government when the remaining shares are sold.

6. Liberalization Policies

The chances of success are greater when privatisation is part of a more general liberalization process, i.e., where privatisation is not delayed in the hope that a well functioning market would develop but it is used to help create that market through enlarging the number of participants who have direct stake in ensuring that market function well.

7. Development of Capital Markets

In privatisation process capital markets are playing very important role in implementing a successful privatisation. The Government has an important role in encouraging development of capital markets; this would generate competition and cost efficiency would result in privatisation leading to benefit for consumers.

8. Labor Factor

In privatisation process labor factor will play important role. Privatisation theory suggests that at the short-run period, job loss and wage cuts are likely to occur under the new management, but in the long-term period, employment opportunity will be increase and greater economic efficiency will be taken place. The time frame of analysis is relevant.

9. Transparency

The most important ingredient in privatisation rest transparency. It should include studies to inform decision makers and the public about the reasons for divestiture, creates credibility and dispels doubts regarding shady deals. These were the issues involved in the developing countries privatisation programed. In the context ofprivatisation debate it was widely believed that in the 1960s, ~md 1970s, governments in the developing countries increasingly intervened in their economies, hoping to accelerate the development process by investing key industries such as, raw materials, telecommunications, finance, transportation and heavy industries.

1.2 SCOPE OF THE STUDY

The study is based on the economic aspects of privatisation in the GCC countries. It is an examination of the privatisation process undertaken by the GCC countries in the non-oil sector. It evaluates the privatisation process carried out by GCC countries, and highlights the necessity of privatisation in the field of oil-sector, which is not yet privatized.

It further examines the volatile character of the reinter economy, which is the major source of revenue in these countries. The current study does not include the political aspects of privatisation in GCC countries. Though it does underline its implications.

1.3 OBJECTIVE OF STUDY

Like most of the developing countries, in the GCC countries too, the prescription for going to privatisation has come from external agencies like the World Bank (IBRD) and the International Monetary Fund (IMF). Further, these two agencies are providing the possible trajectory as consultants. The study wants to examine the sustainability of the framework suggested by these two agencies and evaluate the institutional strengths and weaknesses of the countries to pursue it. It explores how the privatisation involvement in the GCC countries reduces the role of the State as a producer of goods and services, and reinforces the competitive market economy. The GCC countries are highly dependent on oil revenues, which started becoming volatile since two decades. Here, the study needs to know how to reduce the volatile oil revenues through the privatisation process in these countries.

1.4 METHODOLOGY

The proposed study is descriptive and analytical in nature. During the course of the study both primary and secondary sources are used. The primary sources include the GCC countries' Government Documents, Year Books, and Statistical Abstracts, the United Nations Surveys, Documents, and Statistical Abstracts, the World Bank Publications of Books and Journals, and IMF Publications of Books and Journals on GCC countries. The secondary sources used for the study include books, and articles of important journals including the Middle East Economic Survey, Middle East Economic Digest and Middle East Journals, and interviews with Embassy officials of GCC countries, and views of expert publicists.

1.5 CHAPTERISATION

The first chapter highlights the privatisation and the rentier economy, and it explains what are the causes, which compelled the developing counties to go for privatisation. The study also examines the role of the external agencies; the World Bank and the IMF, which have provided financial assistance to the developing countries in the name of privatisation programed. Like the developing countries, the GCC countries too adopted the privatisation in the non-oil sector. The GCC countries are rentier economies, where rent constitutes the major part of economic activities. This oil rent is highly volatile in nature and oil revenue is declining. To reduce this dependence privatisation has got important role in these countries.

The second chapter emphasizes the country-wise privatisation programed in the GCC countries, namely, Saudi Arabia, Kuwait, and the United Arab Emirates. These countries started privatisation in the 1990 onwards, but owing to decline in their oil revenues, the GCC countries' economies face major challenges, such as, declining oil revenues, deficit budgets, subsidies, increasing defense expenditure, and high population growth. To overcome these challenge privatisation was invited in the non-oil sector, especially in the infrastructure sector like power and water, telecommunication, airport, port and construction sectors. The study also examines the privatisation performance and its implementation problem.

The third chapter underlines the country-wise privatisation programed in Bahrain, Qatar, and Oman. These three countries have less oil reserves comparatively what neighbors have. These countries' economies also face major challenges, such as, declining oil revenues, deficit budgets, subsidies, increasing defense expenditure, and high population growth. The privatisation programed is expected to alleviate these problems.

The fourth chapter makes comparative study of the privatisation in the GCC countries, emphasizing on issues and challenges. The GCC countries have adopted different strategies and methods in dealing with the private sector. These countries passed privatisation laws to attract more private sector investment in the non-oil sector.

The fifth chapter is the conclusion, which summarizes the whole study followed by suggestions for alleviating the difficulties faced by the GCC countries in the process of privatisation.

1.6 NOTES, DEFINITIONS AND ABBREVIATIONS

- GCC - The Cooperation Council for the Arab States of the Gulf, known as the Gulf Cooperation Council, was founded in 1981 by six member countries, Bahrain, Kuwait, Oman Qatar, Saudi Arabia and the United Arab Emirates. It issued an agreement covering the freedom of movement of people and capital, the abolition of customs duties, technical and monetary coordination. GCC Ministries agreed to set up a common market by the year 2000.
- OPEC- The Organization of Oil Producing Countries was formed in 1960 and it's headquartered in Vienna. Since the 1970s, OPEC has had 13members. The Middle Eastern members include Iran and seven Arab countries: Saudi Arabia, Iraq, Libya, Algeria, Kuwait, Qatar, and the UAE. There are also four non Middle East members: Indonesia, Nigeria, and Venezuela. OPEC's basket price is a weighted average of the following Crudes: Saharan Blend, Minas, Bonny Light, Arabian Light, Dubai, Tia Juana, and Isthmus.
- b- barrels
- bcf- billion cubic feet
- b/d- barrels a day
- bn- billion
- bn b/d -billion barrels a day
- GOP-Gross Domestic Product
- Km- kilometres
- mn- million
- KOC-Kuwait Oil Company
- LPG- Liquefied Petroleum Gas

- LNG-Liquefied Natural Gas
- OOOb/d-thousand barrels per day
- DNOC- Abu Dhabi National Oil Company
- FDI- Foreign Direct Investment
- IMF- International Monetary Fund
- WB- the World Bank WTO- World Trade Organization
- SOE- State-owned Enterprises
- BOO- Build-Own-Operate
- BOOT -Build-Own-Operate-Transfer
- IPP- Independent-Power-Production
- IWPP-Independent-Water-Power-Production
- PPA-Power-Purchasing-Agreement
- SEC- Saudi Electricity Commission
- SCECO's- Saudi Consolidated Electricity Companies
- SEAPA-Saudi Seaports Authority
- O&M-Operation and Maintenance
- SABIC-Saudi Basic Industries Corporation
- SAFCO-Saudi Arabian Fertilizer Company
- SADAF-Saudi Petroleum Company
- ESCWA-Economic and Social Commission for Western Asia
- NIGS- National Industrial Gases Company

- GSM-Global System for Mobiles
- ATM-Asynchronous Transfer Mode
- WLL-Wireless Local Loop
- VOIP-Voice Over Internet Protocol
- ADSL-Asymmetric Digital Subscribers Lines
- KIA -Kuwait Investment Authority
- KTC-Kuwait Telecommunication Company
- MW-Mega Watt KASCO-Kuwait Aviation Services Company
- ADWEA-Abu Dhabi Water and Electricity Department
- EPC- Engineering, Procurement and Construction
- ETISALA T -Emirate Telecommunication Corporation
- IWPP-Indepcndcnt Water and Power Projects
- BATELCO's-Bahrain Telecommunication Company ALBA-Aluminum Bahrain
- TEU-Foot Equivalent Units
- BALEXO-Bahrain Aluminum Extrusion Company
- t/y -tones a year
- KAHRAMAA-Qatar's General Electricity and Water Corporation
- Q-Tel-Qatar Telecommunications SIPRI-Stockholm International Peace Research Institute
- OAS-Oman Aviation Services
- PDO-Petroleum Development Oman

- OMANTEL-Oman Telecom Company
- OOC-Oman Oil Company
- SGRF-Special Generation Reserve Fund
- SEC-Saudi Supreme Economic Council
- SPC-Bahrain Supreme Privatisation Council
- BD-Bahrain Dinar
- KD-Kuwait Dinar
- RO-Oman Riyals
- QR-Qatar Riyals
- SR-Saudi Riyals
- UD-UAE Dirham
- PSE' s-Public-Sector Enterprises
- UNDP-United Nations Development Programmed
- DSM-Doha Securities Market
- QAPCO-Qatar Petrochemicals Company
- QASCO-Qatar Steel Company
- QAFCO-Qatar Fertilizer Company
- QIMCO-Qatar Industrial Manufacturing Company.

CHAPTER - II

LITERATURE REVIEW

CHAPTER 2

2.1 LITERATURE REVIEW

In the previous two chapter case studies of the GCC economies have provided the issues and challenges faced by the individual countries. The common issues emerging out are studied in comparative perspective in this chapter. The GCC countries share among themselves, common language, common cultural and institutional heritage, as well as common economic and social challenges. All of them have been heavily oil dependent economies, despite the fact that all are not equally richly endowed with the 'black gold.' What is important that during the oil boom period all of them pursued the economic regime, which is posing serious challenges of sustainability both in terms of shrinking resources and expanding expenditure burden; hence all of them have been under pressure to initiate changes in their economic regime. Among leading concerns faced by them include, high rate of population growth and dependence on labor force from outside, and weak links with the global economy.

1. The experiences of the GCC States suggest that each country follow different method and strategies in dealing with the private sector. Kuwait and the United Arab Emirates have taken trade route as the two countries have carved a niche for themselves as trading nation. Dubai has become international commercial hub city; this city has invited number of international businessmen to invest in the non-oil sector. Kuwait has history, with time Diamond and Jewel trade were a prime export items. After the discovery of oil, trade activities increased and invited number of international business delegates to invest in the non-oil sector. On the other hand, other GCC countries, Bahrain, Oman, Qatar and Saudi Arabia have been implementing liberal macroeconomic policies, where both the public and the private sector play a very important role.
2. The dominance of the State sector and to an extent development of the private sector in the GCC economies can be attributed to the size of the oil sector in relation to the non-oil sector. Since oil sector has been with the State, tube Jitter acquired corresponding domirlation. Further the State has also owned the public utilities. The space for private sector has been thus restricted. The privatisation drive so far has been aimed at to open the public utilities but it is also expected that the future development of oil and gas sector,

private participation might be invited both in upstream and downstream. Privatisation experience differs from country to country and in sectors. In Saudi Arabia, privatisation performed well in the telecom sector. The Saudi Telecom Company (STC) has created mobile revolution in the Gulf Region. The STC installed capacity at the end of 2000 is: fixed lines were 2,964.7, and GSM lines were 1,375.9. The forecast subscriber base at 2006 will be estimated at fixed lines services to 5.2 million and GSM services to 8.6 million.

3. The telecom coverage area has been reached ninety eight percent in the Kingdom and estimated investment in the telecom sector was expected in between US$ 25,000 to 35,000 million during 1998-2008 period. Among the GCC countries Saudi Arabian Telecom sector performed very well, and the telephone lines were doubled in 2001. Before privatisation the number of lines were 12,34,000, which reached 38,48,274. The following table shows the GCC countries' telephone performance.

Table 2.1: The GCC Countries Telephone Lines in Privatisation Process: 1990-2001

Country	1990	1995	1996	1997	1998	1999	2000	2001
Bahrain	93,995	140,850	144,391	152,303	157,619	163,684	168,041	172,514
Kuwait	331,000	382,287	391,841	411,629	427,288	449,301	467,078	485,558
Oman	107,409	177,655	211,731	200,757	214,358	220,373	225,436	235,307
Qatar	92,071	122,700	133,513	142,000	150,508	154,904	162,041	169,508
Saudi Arabia	1,234,000	1,719,000	2,004,000	2,285,000	2,878,000	2,950,000	3,369,333	3,848,274
UAE	396,435	801,298	931,908	835,000	915,000	975,000	1,020,097	1,067,280

Source: Statistical Abstract of the ESCWA Region, 2003 (New York: UN Publications, 2003), p.287.Kuwait privatisation programed performed well in the power and water sector.

In 1987 period, its total production capacity was 5,230 MW.4 After private sector participation, the production capacity has increased to 7,630 MW. The two main power stations have got privatized; one at Al-Sour South-2,400 MW and another one at Shuiaba-100 MW. After these two power plants' privatisation summer peak hour demand was reduced in Kuwait.

The United Arab Emirates privatisation programed performed well in airport sector. It has been taken progressively, and has been one of the fastest growing sectors in the Gulf region.

The private sector participation in the Dubai International Airport lays its up gradation at the World. The survey conducted in 52 airports worldwide puts Dubai Airport in the first position of overall passenger satisfaction among both leisure and. business travelers.

(See the table airport performance in the UAE). Dubai's department of civil aviation (DCA) embarked on an expansion programed dealing with 30 million passengers a year by 2010.This expansion plan was the biggest in the region. The private sector involvement has encouraged greater competition in this sector. It has invested US $ 2,500 million to create one of the most advanced and user-friendly aviation hubs not only in the region but also in the ·world level.6 The following table shows that the GCC air traffic performance has been increased after privatisation; particularly, the UAE performance is top among the GCC members.

Table 2.2: The GCC Countries Air Traffic Service after Privatization, 1990-2000

Bahrain	Planes		Goods		Passengers	
	Arrivals	Departures	Loaded	Unloaded	Arrivals	Departures
1990	20,556	20,557	10,175	29,677	995	999
1995	26,918	26;917	42,782	61,590	1,428	1,442
1999	27,318	27,262	40,474	64,982	1,471	1,456
2000	29,942	30,130	57,953	88,841	1,682	1,699
Kuwait						
1990	7,374	7,376	19,186	26,001	659	753
1995	15,836	15,840	39,848	84,301	1,730	1,629

Oman						
1990	13,581	13,567	9,147	17,161	567	535
1995	15,196	15,199	14,095	23,944	914	875
2001	16,851	16,847			1,177	1,173
Qatar						
1990	9,625	9,625	6,118	19,791	548	555
1999	17,480	17,480	18,850	43,747	1,276	1,293
Saudi Arabia						
1995	212,413		158,405	240,330	12,462	12,483
2000	115,151	115,152	282,893	171,248	13,721	13,807
UAE						
1990	45,744	45,812	86,668	123,723	1,957	1,961
2000	111,776	111,942	300,834	300,627	2,086	2,109

Source: Statistical Abstract of the ESCWA Region, 2003 (New York: UN Publications), 2003, pp.284-285.

Bahrain privatisation experience reached an advanced stage in the telecommunication sector. Private sector involvement in Bahrain Telecommunication Company (Bate Leo), was one of the most profitable and successful implementation of privatisation in the Gulf Region. It net profits rose to 12.8 million dinars (US $ 33.9 million), in the first quarter of 2001.7 At the same time mobile call charges were reduced by up to 26 per cent and monthly rental charges by up to 40 per cent.

Mobile customers have been increased fold of around 3,00,000 in 2002. Around 46 per cent of Bahrain people have mobile phones. In terms of mobile users Bahrain stood fourth highest percentage in the Middle East, after the UAE, Kuwait and Lebanon. In Qatar privatisation performance was well in the telecommunication sector. Qatar telecommunication (Q-Tel) achieved record level revenue amounting to QR 1, 721 million, an increase of.20 per cent in 2003.8 Q-Tel ensured that Qatar has the most advanced telecommunications. Its service is comparable to those found in developed countries. The company's network and infrastructure is hundred percent digital. This achievement is done by very few telecommunication organizations in the world.

The privatisation process has improved customer service centers; new billing systems introduced enabled this to maintain its distinguished position as a progressive company both in Qatar and the global level. Oman privatisation programed performed well in the power sector. Oman is the first country in the Gulf to introduce private sector participation in the power sector. The AL Mahan power plant is selling electricity to the national grid owned by the public sector and managed by the Ministry of Electricity and Water under 20 years power purchasing agreement.

This project demonstrated the attractiveness of the Gulf to the private sector operations and the Government was able to get reasonable price. Another notable offer to the private sector at Shalala power plant is the transmission and distribution establishment of a new 200 MW power plant. The following table shows that the GCC countries' power production has been improved from the period 1995 to 2000, and summer peak hour demand has been drastically reduced.

Table 2.3 the GCC countries power production in 1990-2000

Bahrain Types of Power Stations	1995 Thermal Power					2000 Thermal Power				
	Steam	Gas	Combined Cycle	Other[1]	Total	Steam	Gas	Combined Cycle	Other[1]	Total
Installed Capacity (000' KW)	120	822		333	1,275	100	825	305	276	1,506
Peak Load (000' KW)					952					1,307
Production (Million KWH)	683	2,810		1,119	4,612	795	3,586	596	1,319	6,297
Kuwait										
Installed Capacity (000' KW)	6,629	269			6,898	9,054	244			9,298
Peak Load (000' KW)					4,730					6,540
Production (Million KWH)					23,724					30,617
Oman										
Installed Capacity (000' KW)	106	1,168		387	1,661	140	1,692		412	2,244
Peak Load (000' KW)					1,527					2,121
Production (Million KWH)	601	4,590		1,269	6,460	817	6,950		1,344	9,111

Installed Capacity (000' KW)	106	1,168		387	1,661	140	1,692		412	2,244
Peak Load (000' KW)					1,527					2,121
Production (Million KWH)	601	4,590		1,269	6,460	817	6,950		1,344	9,111
Qatar										
Installed Capacity (000' KW)	60	1,271		02	1,333		2,240		08	2,248
Peak Load (000' KW)					1,244					1,990
Production (Million KWH)					5,415					9,735
Saudi Arabia										
Installed Capacity (000' KW)	5,040	11,486	256	3,073	19,855	7,843	15,158	1,410	758	25,169
Peak Load (000' KW)					16,907					21,101
Production (Million KWH)	30,161	40,209		1,552	71,922	42,001	56,485	4,566	25,348	1,28,40[illegible]
The UAE										
Installed Capacity (000' KW)	2,268	3,872	112	242	6,494	2,981	4,704	292	303	8,280
Peak Load (000' KW)					4,727					6,928
Production (Million KWH)					24,982					37,127

Includes other fans of Thermal turbines, mainly Diesel.

Source: Statistical abstract of the ESCWA Region, 2003 (New York: UN publications), 2003, pp.252-254.

Comparative study further highlights the privatisation diversity in the GCC countries. Given the specific priorities, the countries have passed certain specific laws relating to the privatisation programed to speed up the process, especially, in the non-oil sector. Saudi Arabia, has established a Supreme Economic Council (SEC), the highest decision making body to implement privatisation programed.

Kuwait has passed a separate Privatisation Law, under this law a higher Commission was set up; it looks into the selection of the State utilities to open up private companies for sale. The United Arab Emirates also passed a separate Privatisation Law Committee; this Committee is expected to look into the setting out the parameters for the private sector involvement, and mapping out necessary plans, timetables and structures needed to ensure the privatisation successful. Bahrain has set up a Supreme Privatisation Council (SPC). The Prime Minister is the Chairman, and important Cabinet Ministers are members of this Council.14 The Council's main task has been to formulate privatisation plans and set out timetable for the proposed sales of public utilities.

These specific laws passed by the GCC countries have encouraged the greater private sector participation in their economies. This shows the greater commitment of the GCC countries to implement successful privatisation programed. The mam constraints facing the expansion of the role of the private sector m the economy are similar in the GCC countries. These include, regulatory and bureaucratic systems, slow judicial system, and scarcity of financial resources and unskilled workers. The private sector expansion will remain restricted so long there is no private investment in the oil sector. The oil sector is the largest economic sector in the· GCC countries about 33 percent of GDP contribution.16 There have been signs recently that the oil-sector might be opened for private sector participation. There is a need to open the oil sector particularly the exploration of natural gas to the participation of the private sector. "Markets and institutions have very important role in promoting privatisation process. In the GCC countries markets are more controlled by the Government intervention. In the 1990s onwards these countries started privatisation programed; and approach has been changed relying, moon on markets and less intervention on Governments spread throughout the Gulf region.

Proper price signals in markets are thought to generate the best incentives for an economy to undertake efficient private production and investment. For the success of market-oriented mechanisms, institutions are crucial to the proper and smooth functioning of markets, and to the reduction of the imperfections of markets. Institutions are needed to guarantee that people have adequate control over the returns to their human and non-human assets and activities."18 Without such control, people have less incentive to undertake and invest in productive activities and invent and use new technologies. In the developed countries institutions have been evolved over several decades; in these countries the markets mechanism was considered to be the main institution responsible for creating an economically efficient outcome, and citizens of these countries expecting the Government _has little control as possible in markets. The economic system in the developing countries has been very diverse. The Government typically takes a lead in allocating production and investment among sectors and geographical areas. At the same time the Government acts as the major role in the economy producing a large share of the country's goods and services, and this intervention has affected efficiency and competition. Globalization of the world economy is increasing a new and major factor that requires institutional change in all countries, particularly in the GCC countries. In the globalization era countries have to adopt institutional reforms; these reforms will take greater advantage of more vibrant international markets, and the spread of globalization is increasing the pressure on countries to undertake these institutional changes as demonstrated. 20 Privatisation in the GCC countries' institutions are shifting towards more reform oriented economic policies. Before privatisation in the GCC countries, foreign countries' establishments were restricted; now these countries' institutions are more liberalized to establish foreign companies in the country. These countries have given more concession to foreign companies investing in infrastructure sector. Incentives are differ from country to country. In Kuwait under the economic reforms, incentives were announced for the private companies to increase more investment in the non-oil sector.

The incentives are, foreigners to trade on the Kuwait stock exchange and to own stock in companies; no corporate taxes are imposed on companies wholly owned by the Kuwaiti citizens or citizens of GCC members' countries and foreign corporations are subject to a 55 percent corporate income tax rate. 21 In Qatar the Government has announced incentives to encourage more investment especially on foreign companies, they are, foreign investors are provided with exemption from customs duty charges on equipment, machinery, spare parts and raw materials, five years exemption from income tax, exemption from export fees on products, subsidized rates of electricity announced at the rate of 1 06 US Cents per watt/hour for industries and 2. 7 4 US Cents for hotels, sites provided at nominal lease rates to 27 US Cents per meter/year with one year period of grace, water services provided with low cost of 1.3 US Dollars, per cubic meters and easy visa services for low cost foreign workers.22 Oman also followed more liberal policies towards the private companies; the Government has announced incentives such as, provision of soft loans and low interest rates, exemption of import duties on import of plant and equipment, relief from customs duty on raw materials for up to ten years, no personal income tax and corporate tax for up to ten years.23 The UAE announced incentives to the private companies to encourage more investment in the non-oil sector. They are: foreigners can hold up to 49 percent of ownership rights of limited liability companies, and up to 100 percent of professional companies or branches and representative offices of foreign companies in free trade zone, 100 percent repatriation of capital and profits or personal incomes, no foreign exchange control, no trade barriers quotas; and companies can establish themselves in a free zone with no services charges or fees, no import and export duties and enjoy some of the lowest tariffs in the region.

These are the incentives provided by the four GCC countries differ from one country to another. Bahrain and Saudi Arabia have not announced incentives for foreign countries but they are restricted to the forcing companies establishment. Privatisation has acquired rise in diversification process of the economies. This process has already been initiated. In the 1990 onwards-economic diversification has intensified through a senes of policy changes aimed at creating a more-market-and export oriented economy. These included liberalization of trade and domestic markets and privatisation of State-owned enterprises. These reforms required complementary changes in the Government role in fostering development and in the relationship between public and private organization.

Economic diversification has been more intensified in Qatar after the change of leadership in 1995. The new leadership introduced reformist orientation policies in the economy. Emir Hamid made these programmers as one of the central planks of his rule and has aggressively used these reforms as a means by which to assert Qatar's autonomy and distinctiveness from his GCC neighbors. His reforms agendas involve three important themes-encouragement of the private sector, freedom of expression and democratization. Oman's economic diversification reforms' agenda went one step ahead of Qatar. The visionary leadership of Sultan Caboose announced liberalization policies towards more market oriented reform in Oman's Vision of 2020. The vision text envisaged major share of the private sector investment in non-oil sector. The main objectives are, development of human resources and upgrading Omani skills and managing technological change, maintaining a stable economic framework, and the establishment of effective competitive private sector, and appropriation from the realization of economic diversification.

The UAE's economic diversification reforms are a major policy of the Government. The UAE announced Dubai 's Strategic Development Plan, 1990-2030. The main objectives are, the Government considered a policy option to increase efficiency of services, upgrading infrastructure facilities like, roads, transport, telephone, electricity and housing etc. Investment policy identifies areas for foreign investment, equity ownership, rule and visas procedures, and incentives to attract multinational corporations in selected industries.28 These are the objectives involved in the Development Plan, 1990-2030. This policy shows that Government commitment of economic diversification. Other GCC countries also supported economic reforms but they have not passed specific plans and incentives. In the coming years it is expected that these countries also will go for such type of visionary plan. Institutions of any country cannot make change immediately. It has a long process of complex interactions among various economic, social and political forces, both internal and external. Economic institutions have been evolved in unpredictable way; and there are disturbance of internal and external conditions such as wars, demographic change, invention of new technologies, new ideas, political change, changes in international markets and changes in domestic or international rules and regulations. 29 These are the causes for sudden changes of economic institutions of any country. At the same time the present rapid pace of economic and social changes throughout the world requires proportionate changes in institutions; if countries to develop and compete at global level, changes are essential. Markets and institutions play very important role in any country and they will support privatisation process. The role of ruling family has been typically significant in the privatisation process in the Gulf countries.

Though documentary evidence is hard to get, but on the basis of the interviews conducted at Embassies that 'royal families' have been playing an important role in shaping and pushing the privatisation process as in fact they have been its beneficiaries as well. Survey on specific questions; what has been the royal families' role in privatisation process Or how are they making lobby to get major shares in investing in the non-oil sector The answers have been that the royal families are playing key role in the process of privatisation through lobbying the decision-making. In the privatisation of State-owned companies, the royal families are getting major share. The common people have very limited access to shares. Thus is illustrated by the fact that in Saudi Arabia; Bin Laden Group is already having major share m the construction sector. In Kuwait AL-Sabah families have a major share in infrastructure development. In Qatar AI-Thane families· have got major share in industrial sector. In Oman Bin Said families have a major share in power and water sector. In Bahrain King relatives have got major role in implementing the privatisation programed. In the UAE AL-Nahant and Actium families have major share in infrastructure development. The second important question asked for the officials is: what are the measures taken by your country to recruit the national citizens in the private sector. The issues that emerged was that the 'nationals' perception should change and they have to learn technological skills and try to adjust to the changing circumstances to compete at international level; if they do not change their skill levels it is very difficult to recruit nationals in the private sector. What their ancestors enjoyed during the oil boom period is not possible to provide in today's circumstances. The Government has already started technological training institutes to train the nationals; they should join these institutes to overcome this hurdle.

Challenges

1. It is clear that oil rich Gulf countries face special challenges in manga their economies, because of volatility of oil prices and revenues. Further, these economies have to minimize dependence on oil by promoting the non-oil sector.
1. The uncertainty of oil revenues has a number of implications for both short-term and long-term fiscal.

Policy

The biggest challenge for the GCC countries is the volatility of oil revenues, especially for short run macro fiscal management. These countries oil export contributes almost ninety percent. For example, in Kuwait it reached ninety five percent, in the UAE ninety three percent, and in Saudi Arabia it is seventy five percent. 3I Oil sector has the greatest share in the GOP. In all the GCC countries it continued to play very important role at least in short-run. Thus, privatisation requirement has to be promoted in the shadow of volatile oil regime. The region's oil revenue like production and prices was fluctuated sharply in their levels. During 1974-1979 the six GCC countries' oil revenues totaled 3 73.2 billion, in the period 1980-1984, it reached 562.7 billion. During 1979-1984, oil price hike increased the oil revenues, after that 1984-1989 onwards oil prices started declining and oil revenues declined to 235.2 billion.32 In 1990-1998, the region's total oil revenues were US$ 660.7 billion, an annual average of US$ 80 billion. During this period Saudi Arabian oil revenues reached US $1, I 02 billion, followed by the United Arab Emirates US $ 243 billion. Other GCC members Oman, Qatar and Bahrain totaled US $ 81.8 billion, US$ 71.4 billion and US $ 39.8 billion respectively. Oil revenues have played and continue to play a major role in the GCC countries. Declining oil revenues greatly affect the Government budgets. Despite economic diversification, oil revenue still accounted for 85 percent of exports of the GCC countries and it represents 80 per cent of their budget revenues. During the 1973 to 1980 when oil revenues were relatively high these economies registered phenomenal growth. Government budgets also recorded surpluses. When oil revenues were n::iativ_eJy Jowl these countries were constrained to achieve economic growth and development. Increasing consumption on Government expenditures led to rethinking of their policies, which eventually led to introducing the privatisation process into their economies. Indeed the decline in oil price was not a short-term phenomenon but a long-term reality. All the GCC countries should more concerned with market events and future prospects. But the implications of oil price variations for economies and the people of the region are more serious than anywhere else. The GCC countries are facing serious financial problem as followed by large persistent deficit budget in every State. The deficit budget not only created fiscal problems but it affected the performance, growth and stability of the national economies also. To fill up this increasing deficit gap the GCC countries relied on easy means of financing deficits such as, drawing funds from Special Generation Reserve Fund (SGRF), and borrowing from domestic financial markets. The deficit budget problem in the GCC countries not simply a shortage of oil and non-oil revenues. It is more than that caused by the expenditure policies followed by these countries. One contributory factor of deficit budget was that ever-increasing current expenditure in most of the GCC budgets was consistently growing at high rates. The main cause of these increases is due to population growth, and large part of current expenditures like, payment of wages and salaries, interest payments, defense expenditure and subsidiaries. Some of the public services are still provided free of charge or below cost, for example, water, electricity, and health sector. These expenditures cannot be economically justified. The second contributory factor of the deficit budget was the declining oil revenues, which represent mainstay of the budgets. The third contributory factor of the deficit budget was the capital expenditure. The GCC counties have attained a standard of basis infrastructure applicable to high-income societies; a high investment commitment is needed to maintain these levels of lavish public service. Unless the private sector takes up part of these investments, it is not possible to control deficit budgets in the GCC countries. The following tables show various years' deficit budgets presented by the GCC States.

Table 2.4: The GCC Countries Surplus/Deficit Budgets: 1980-84

Country	1980	1984	1991-92	1993-94	1995-96
Bahrain(BDMillion)	+93.63	0.00	-71.8	-130.1	+6.0
Kuwait(KDMillion)	+2,866.50	-294.82	-1,782.0	-1,402.5	+63.3
Oman(ROMillion)	+54.65	-314.91	-578.5	-495.5	-218
Qatar(QRMillion)	+322.78	-445.12	-3,268	-2,703	-3,531
SaudiArabia(SRMillion)	+8,587.60	-4,239.9	-67.1	-38.8	-17.0
UAE(AEOMillion)	+659.90	-290.04	-5,010	-17482	-17,720

Source: MEES, MEED, Europa Year Books, Various Years Issues.

Table 2.5: The GCC Countries Surplus/Deficit Budgets: 1997-03

Country	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Bahrain (BDMillion)	-150.4	-63.4	NA	-140	NA	NA
Kuwait (KDMillion)	-1,330.9	-216.8	-2,288.4	+0,955.4	+0,646.4	-1,894
Oman (ROMillion)	-147	-86	-87	-317	-222	-168
Qatar (QRMillion)	-2,950	-3,306	-3,603	-2,783	+497	-1,819
Saudi Arabia(SRMillion)	-6.0		+22,743	-26,981	-20,500	+41,000
UAE(AEO Million)	-	-28,756	-28,248	+00,565	00,807	NA

Source: MEES, MEED and Europa Year Book, Various Years Issues, +Surplus -Deficit.

Among the GCC countries Saudi Arabia tops the highest spender of defense expenditure. In 1990 it spent around SR 4 7,812 million, and it went up to, SR 78,850 million in 2001. Then Oman came to second place; in 1990 it spent around RO 656.2 million, its expenditure increased to RO 933.0 million in 2001. Bahrain was the lowest spender of the defense expenditure among the GCC countries. In 1990 it was around BD 72.9 million, and it went up to BD 125.9 million in 2001.

The following table shows various years' defense expenditure in the GCC countries.

Table 2.6: Defense Expenditure in the GCC Countries: 1990-2001 Periods

Country	Years											
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Bahrain (BDL million)	NA	72.9	94.6	94.4	93.3	102.5	108.5	109.0	112.8	122.8	121.0	125.9
Kuwait (KD million)	327.7	476.3	493.0	478.8	1036	1163	778	NA	887.9	921.2	733.7	NA
Oman (RO million)	656.2	557.4	679.5	650.1	699.0	681.3	653.7	668.9	675.8	687.2	808.6	933.0
Qatar (QR million)	NA	3.400	4,300	6,636	NA	NA	NA	4,100	NA	NA	NA	5,300
Saudi Arabia (Million Riyals)	47,812	48,689	54,300	61,636	53,549	49,501	50,129	67,975	78,251	68,700	74,866	78,850
UAE (Dirham millions)	NA	5,827	5,827	5,827	5,827	NA	8,110	8,446	8,741	8.953	8,688	8,796

Source: The Middle East and North Africa, Year Book (London: Europa Publications), Various Years Issues.

The Gulf countries have experienced unprecedented rates of population growth since the early 1970s; the population growth in the region is one of the highest in the world, i.e., around 3-4 percent annually (see table the GCC countries population growth). This baby oil boom period has created a wholly new demographic structure, with the indigenous populations he low the age of fifteen.

Table 2.7: Gulf States: Total Fertility Rate Projections 2000-2015 (%)

Country	2000-05	2005-10	2010-15
Bahrain	2.4	2.1	2.1
Kuwait	2.5	2.3	2.1
Oman	5.4	5.0	4.5
Qatar	3.4	3.0	2.7
Saudi Arabia	5.2	4.7	4.1
UAE	3.0	2.7	2.3

Source: Survey of Economic and Social Developments in the ESCW A Region 1999-2000 (New York: UN Publications), 2000, p.ll6.

Table 2.8: Population by Age Group in the GCC Countries: 1995-2001

Country	Years	Age Group	No Of People	Percentage
Bahrain	2001	0-4 To 10-14	181369	27.9
		15-64	452872	69.7
		65+	16363	2.5
		Not Stated		
		All Ages	650,604	100
Kuwait	1995	0-4 To 10-14	471,496	29.9
		15-64	1,079,366	68.5
		65+	24,708	1.6
		Not Stated		
		All Ages	1,575,570	100
Oman	1995	0-4 To 10-14	827,212	40.9
		15-64	1144214	56.7
		65+	45,701	2.3
		Not Stated	947	
		All Ages	2,018,074	100
Qatar	1997	0-4 To 10-14	137705	26.4
		15-64	376631	72.2
		65+	6.680	1.3
		Not Stated	1,007	0.2
		All Ages	522,023	100
Saudi Arabia	1992	0-4 To 10-14	7076130	41.8
		15-64	9438083	55.7
		65+	434,175	2.6
		Not Stated		
		All Ages	16,948,388	100
UAE	1995	0-4 To 10-14	634,394	26.3
		15-64	175,1096	73.7
		65+	25,386	1.1
		Not Stated	165	0.0
		All Ages	2,411,041	100

Source: Statistical Abstract of the ESCWA Region-2003 (New York: UN Publication), 2003, pp.1 0-20.

This generation's entry into the labor force is giving a great stress on the economies of the Gulf countries. According to various projections, by the year 2000 the total population of these countries will reach almost 20 million.37 Larger population means the greater demand for water, power and telephone services, all of which were heavily subsidized in these States. The main cause of population increase has been the various pronatalist policies followed during the oil boom period. Since the early I 970s several measures have been adopted with the aim of encouraging high crude birth and fertility rates. Such measures were, undoubtedly, effective in accomplishing the aim of maintaining high fertility rates. During the last twenty-five years the populations of the Gulf oil monarchies were increased by some of the highest rates in the entire world. By 2003, the total national populations of the six Gulf monarchies numbered at 28.8 million, compared to little more than 6 million in 1975, represented almost three-fold increase during two decades.

High population growth created a number of unemployed youth in the GCC States; unemployment became political sensitive issue in these countries. Labor market surveys indicate that rising unemployment has hit mostly first-time job seekers, particularly those with a secondary· education. This suggests that unemployment was predominantly the result not of economic restructuring but, rather, of the countries inability to create jobs fast enough to accommodate new entrants into the labor force. It may also reflect the willingness of educated youth to wait for jobs in the formal and public sectors to open up and register themselves as an unemployed in the interim, as well as educational system's failure to provide its students with the kinds of skills needed for private sector jobs.39 An Economist Journal estimated unemployment at a range of 20 percent in Oman, 25 per cent in Saudi Arabia, and 30 percent in Bahrain.40 High and persistent unemployment was straining, the social fabric and could stir social upheaval. In .Bahrain, high unemployment amongst urban youth did lead to political unrest in the 1990s. Furthermore, soaring birth rates around 3.5 to 4 percent in GCC States and more than half of national population under the age of 15 years generating employment for locals is going to be a critical factor.

High population growth in the GCC States has adversely affected economic activities and these States have to rethink to control population growth. Otherwise these States will face greater problems. To maintain 'welfare profile' all the GCC States have been providing highest level of subsidies to their citizens. This has adversely affected economic growth and led to deficit budgets. Housing, health care, education, electricity, water and fuel have been heavily subsidized contributing to budget deficits in the GCC States. Because these subsidies generated economic distortions and led to reduce standards of living for future generation because, they were inconsistent with long-term goals. One way of classifying subsidies was by sector and type of subsidy (operating or capital). Operating subsidies require a cash outlay for current transactions and include subsidies for such items as wheat, essential commodities, electricity operations, desalination operations, and fuels. Capital subsides were providing largest subsides on water consumption, which accounts for 70 percent.Fuel, electricity and water subsidies account for the lion's share of subsidies in the GCC States. The size of these subsidies varies dramatically from country to country with Saudi Arabia providing the highest level of subsidies and Oman providing lowest level. The following table shows the subsidies in the GCC States. They are now considering to reduce these subsidies year by year.

Table 2.9: Fuel, Electricity and Water Subsidies, GCC 1980-92 (Millions of US dollars)

Country	1980	1985	1990	1991	1992
Bahrain	2.81 (9.14)	318 (8.59)	524 (13.42)	525 (13.17)	540 (13.54)
Kuwait	1,035 (3.63)	1,100 (5.13)	1,571 (8.77)	1,716 (15.33)	1,729 (7.95)
Oman	33 (0.55)	25 (0.25)	278 (2.64)	301 (2.94)	281 (2.48)
Qatar	508 (6.46)	881 (14.32)	843 (11.46)	782 (11.71)	664 (9.47)
Saudi Arabia	7,755 (6.69)	10,760 (12.41)	13,726 (13.65)	13,315 (12.26)	14,085 (12.65)
United Arab Emirates	1,207 (408)	1,412 (523)	2,233 (6.54)	2,620 (7.63)	2,676 (7.60)

Note: Numbers in parentheses are percentages of GDP. Source: Neat Sheik, ed. Economic Challenges Facing Middle Eastern and North African Countries (UK: Macmillan Press, 1998), p.239.

Issues

Privatisation is pursued with the main objective to provide greater economic efficiency as it will foster well-functioning of market system and promote competition. The private sector participation is expected to increase economic efficiency by exposing good management skills and labor to market incentives and allowing decisions on resources allocations to be determined by the private sector to responses price signals. In well-functioning markets, relative prices give signals regarding scarcity or abundance of various resources, and about the needs and expectations of consumers. This would lead to efficient allocation of scarce resources and serve the objectives of economic efficiency. Competition is also important to achieve economic efficiency gains. An objective of economic efficiency is most likely to be achieved when healthy competitive markets can be created. Privatisation reduces the expenditure side of the budget. Already the GCC States are facing deficit budgets; privatisation in the GCC countries is expected to reduce the deficit budget. Total expenditure for the GCC countries were projected to increase from US $ 89 billion in 1999 to US $ 95 billion in 2000, by around 6.5 percent. At the same time total revenues were expected to increase from US $ 73 billion to US $ 7R billion, resulting in a combined deficit budget of around US $ 17 billion in 2000.44 However, in the year 2000 these countries believed to have achieved budget surpluses (See the table).

Table 2.10: The GCC Countries: Budget Deficits/Surplus to GDP Ratios, 1998-2000

Country	1998	1999	2000
Bahrain	6.5	2.5	(0.7)
Kuwait	5.9	(4.3)	(7.1)
Oman	6.9	7.7	(0.5)
Qatar	4.5	0.6	(5.0)
Saudi Arabia	10.1	7.0	(1.0)
UnitedArabEmirates	16.1	14.8	1.0

Indicates a Surplus. Source: Survey of Economic and Social Developments in the ESCWA Region, 2000-0 I (New York: UN Publications, 200 I), p .52.

The reason behind success of surplus budgets is that the GCC countries have taken some steps to cut expenditure like, institutionalized cost cutting measures that had been introduced in 1999 to control project spending; but current expenditure is increasing particularly in wages and salaries, and defense and security remained untouched. The capital expenditure is dropping, aggregate ratio of gross domestic product dropped from an estimated of around 7 percent in 1999 to 4 percent in 2000. Now-a-days, greater fiscal discipline awareness has been increasing in the GCC countries in order to reduce dependence on a single commodity of oil. Privatisation in the

GCC countries has been designed to eliminate public finance imbalances; private sector participation became efficient and commercially viable.

Privatisation will reduce the financial burden on loss making State-owned enterprises (SOEs) in order to regain fiscal control and macroeconomic stability; the financial burden will result for. monetary instability and macro-economic imbalances. In many cases, these burdens have led to the public disenchantment over the strategies for industrial sector and economic growth; and the necessity of fiscal control has been very crucial. Privatisation is supposed to reduce public debt service with the aid of financial resources mobilized through sales. Debt service is consuming excessive share "of current Government revenues to the detriment of core State functions.45 Public debt in the GCC countries has risen to higher lėvels in recent years; fiscal deficits have continued to be fuelled by excessive spending and lower revenues. Debt figures in some of the GCC countries are: Kuwait US $ 12.4 billion, Qatar US $ 6.6 billion and Bahrain US $ 3 billion in 2001.46 The following table shows GCC countries' debt service in 2000-2001. Privatisation process would be expected that it would reduce the debt service in the GCC `

CHAPTER - III

RESEARCH METHODOLOGY

CHAPTER 3

3.1 RESEARCH METHODOLOGY

Research is a systematic and logical enquiry having as its aim the discovery of new facts or the verification of existence ones. Social work research may therefore be defined as a systematic of existing with a view to increasing, generalizing or verifying social work knowledge .Embraces the entire gamete of social work method field and philosophy.

The word method simply means the mode of way of accomplishing a work. The modern world is very sound of scientific inventions and wants to have scientific outlook of anything. Any scientific approach should have a method or an outline to be followed to attain the particular goal.

3.1.1 RESEARCH DESIGN

Research design is the arrangement of condition for collection and analyses of data in a systematic manner that aims to combine relevance to research purpose with economy in procedure. The research study applied here is purely descriptive.

3.1.2 DESCRIPTIVE RESEARCH DESIGN

Descriptive research studies are those studies. Which are concerned with describing the character of the employees.

3.2 DATA SOURCES

The task of data collection beings after a research problem has been defined and research design plan chalked out. The two types of data are

1. Primary data
2. Secondary data

1. PRIMARY DATA

Primary data is the first hand information, which is being collected by the researcher, is called primary data was collected using interview schedule as the second phase of the study. Written set questions to which the record their answers.

2. SECONDARY DATA

Secondary data are those data, which have been already collected and analyzed by some other. It provided details about the organization, which support the research. The published sources include various text books and company literatures. The researcher has used questionnaires for collecting data.

3.3 VARIOUS ANALYSIS IN GEOGRAPHICAL AREA OF STUDY

GCC countries are one of the fastest-growing populations in the world .It is predicted that by 2020 this population will increase by one-third, to the current 53 million people Moreover, there is a huge influx of expatriates (migrant workers) in GCC countries which constitutes about 48.1% of the total population The rapid growth, aging population and migration present serious challenges to the health care system including the associated healthcare costs.

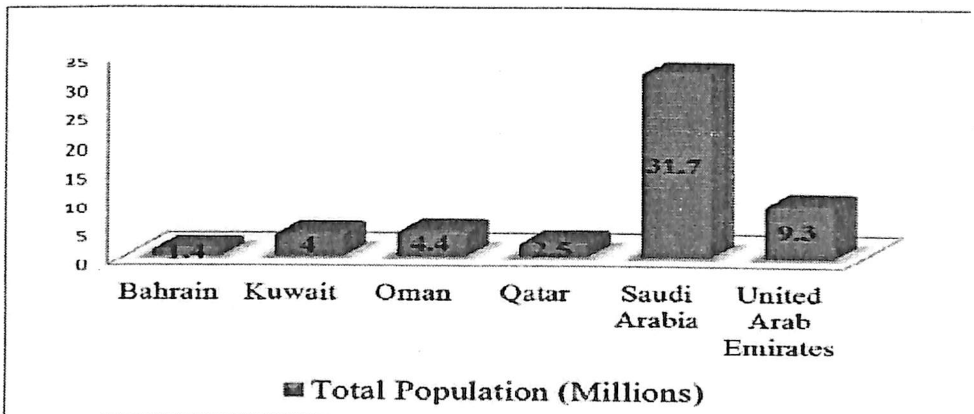
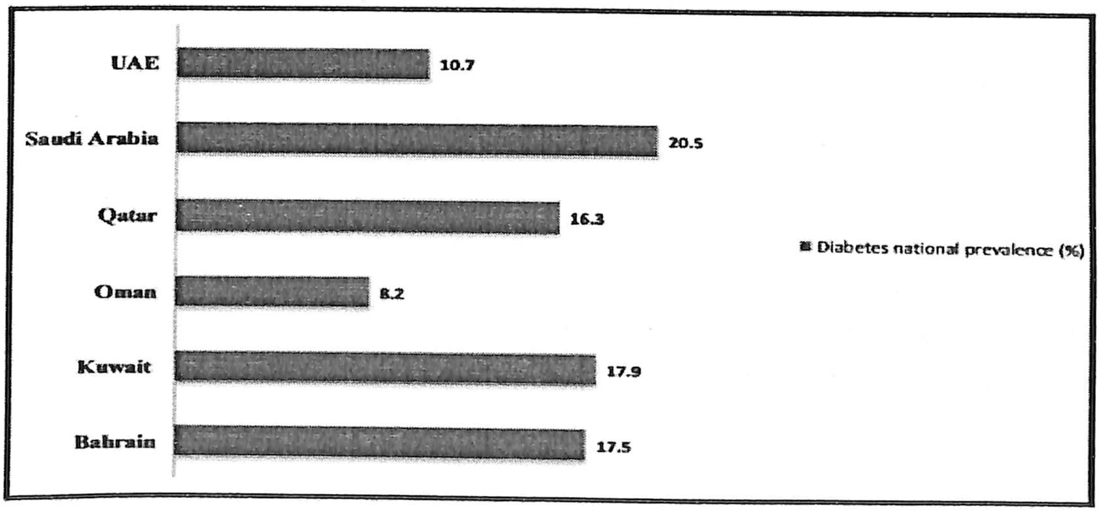


FIGURE 1: Total population of Gulf Cooperation Council (GCC)

Health care sector in the MENA region has seen substantial growth over the past few years with improvement in the quality of health services and infrastructure. Health care expenditure is expected to grow to US$144 billion in 2020 worldwide, with approximately US$69 billion of this health spending is expected from the GCC countries. Increased demand for health care in the GCC is mainly because of the changing demographic and epidemiological trends.

3.4 DEMOGRAPHICS

Recent industrialization and improvement in health care services have led to an increase in life expectancy in the GCC countries from 62 years in 1970 to 77 years in 2012 and infant mortality rate has decreased from 62 per 1000 live births to less than 9 during the same period. Moreover, the leading cause of death from infectious diseases was replaced with a predominance of chronic diseases such as diabetes, hypertension and cardiovascular diseases. GCC countries rank among the highest in the world on risk factors related to lifestyle ailments such as diabetes, cardiovascular conditions and obesity . According to the International Diabetes Federation, the region has six of the 10 countries in the world with highest diabetes prevalence. Saudi Arabia has the highest prevalence of diabetes, that is, 20.5% followed by Qatar (16.3%), Kuwait (17.9%), Bahrain (17.5%), UAE (10.7%) and Oman (8.2%)

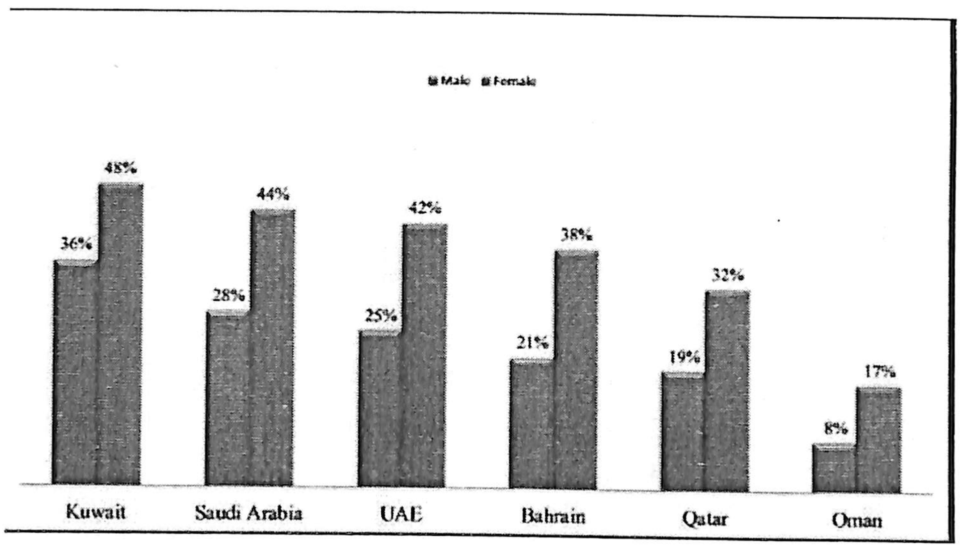


Saudi Arabia is the most populous country among the GCC countries. While, the lowest populated country is Bahrain with 1.4 million population: refer to 'Population reference bureau, World population data sheet.

FIGURE 2: Prevalence of diabetes in Gulf Cooperation Council(GCC).

Oman has the lowest prevalence of diabetes (8.2%) among the GCC countries: refer to 'International Diabetes Federation diabetes atlas'

Mortality rate in GCC from NCDs is one of the highest in the world . This is primarily due to the unhealthy lifestyles, including physical inactivity, high caloric diet, lack of focus on health prevention and disease management, weak primary care infrastructure, and inadequate treatment options to manage NCDs and their complications. The obesity rate for GCC nationals stands at an average of 40%, which is one of the highest in the world . In the coming years, this situation is likely to worsen as the sedentary population in the region ages.



Initiatives by GCC Governments

As early as 2007, a joint statement of the health ministers in GCC endorsed its commitment to confront the diabetes problem and raised it to the Secretary-General of the Council Secretariat of GCC, to their majesties and highnesses the princes, the leaders of the Cooperation Council States to obtain political commitment to confront this problem. Similarly in 2008, Riyadh Declaration endorsed Gulf charter for Health of the Heart, putting Heart first project.

The Supreme Council, being informed of the UN, WHO and the Health Ministers' Council resolutions, decided to adopt Al-Manama document for control of NCDs (Gulf Plan for Control of NCDs 2011–2020) . It directed ministries of health to set executive plans and integrate them in the curative and preventive programs regarding NCDs and to find the best and most effective means for providing services to the citizens. Moreover, the programs should include provision of health education to the community. It recommended provision of adequate budgets to combat NCDs.

3.5 CHALLENGES AND OPPORTUNITIES

The multifaceted nature of health systems across multiple sectors poses challenges in its monitoring and implementation. In this review we will discuss the multiple challenges that exist across the GCC member states for the health care delivery system, using the WHO health system building blocks. The list is long, but the key is to provide opportunities for improvement in middle and long term to facilitate the health services to address the healthcare needs.

3.5.5 HEALTH SERVICE DELIVERY AND WORKFORCE

The current health care system in GCC states functions as radar. The patient appears in the health system and is treated on a "find it and fix it" basis and is discharged, appearing only when next illness episode occurs . This healthcare system, ("Radar System"), is not equipped to meet the mounting challenges engendered by the alarming rates of NCDs in GCC.

This requires radical changes to the health systems. Problems inhibiting implementation of NCD Programs include lack of risk factor surveillance and absence of reliable mortality data. The solution lies in strengthening primary care and ensuring that services and programs are focused with proactive interventions to promote and prevent risks to health.Despite the fact that a remarkable increase took place in the number of health care workersthere is still a shortage in availability of trained physicians/nurses, especially local professionals in GCC; mainly, due to high turnover rates and retention issues .

CHAPTER - IV

DATA ANALYSIS AND INTREPRETATION

CHAPTER 4

4.1 DATA ANALYSIS AND INTREPRETATION

Having analyzed the case studies of the oil rich GCC countries, in this chapter attempt has been made to examine the privatisation process in case of Bahrain, Oman and Qatar. These three countries though have relatively smaller oil reserves, but they are richly endowed with natural gas reserves, more than five per cent of the world. Bahrain is the smallest country in the Gulf region. It has almost run out of oil, producing just less than 39,000 barrels a day, with a gross domestic product of only US $ 5,500 million' Yet oil is the mainstay of the economy, which accounted for almost 70 percent of total exports over the 1986-90 periods, more than 60 per cent of government revenue and more than 18 percent of GDP.2 The country's dependence on the non-renewable hydrocarbon resource base has been imposing constraint on economic growth and welfare as subsidies government expenditure influences non-oil GOP through its impact on infrastructure and services sectors. Since the country's oil resources are diminishing and depleting and are not likely to last beyond fifty years at the current production, it has become imperative that non-oil sector be developed with the help of the private sector. This precisely has been the rationale for privatization in case of Bahrain. Besides there were other reasons like, deficit budgets, grooming unemployment and population growth, increasing public expenditure. With population growing a rate of 3.6 percent annually and more than 60 percent of the population below the age of 25, the government of Bahrain faces unenviable task of creating jobs for new entrants in the workforce.

In Bahrain the unemployment debate was hotly contested. According to the Labor and Social Affairs Ministry presented, unemployment ratio has been grow 2-3 percent, but unofficial estimate are unemployment rate is more than 15 per cent, given the political implications, it seems the government has been under playing the issue. It is observed that unemployment is widely occurred in the Shiite Community. These communities constitute an estimated 70 percent of Bahraini population, majority Shiite Community stays in rural areas. The Bahrain Government has taken some measures to create employment opportunities in non-oil sector. The Government has impressed up on the private sector, to play a major role and share the responsibility of providing jobs to nationals. The Government has promoted a number of job creation schemes, most notable being the recruitment of more national into the Bahrain Defense Force, which in the past had depended on the subcontinent The Government has invited private sector m developmental projects like, industrial projects, and tourism and health sector. These areas are labor intensive and expected to create job opportunities for nationals. The Bahraini Government insists more private sector jobs are created to reduce unemployment problem. Privatisation processes is important part of the reformist agenda implemented by the Government of Bahrain. The second major concern has been deficit budget. The main cause of deficit budget was that increase in current and capital expenditures. It was the difficult for the Government of Bahrain to curb the growth of current expenditures. Capital expenditure part concerned, it remains maintained modest growth, from BD 113 million to BD 151 million. This modest capital expenditure contributed to the fact that, major infrastructure projects were completed. The deficit budget increased from BD 4 million in 1975 to BD 160 million in 2000. At the same time the Government expenditure increased from BD 191 million in 1975 to BD 732 million in 2000. The Bahrain Government budgets show that non-oil revenues has increased very significantly, in 1975 it was around BD 50 million to BD 316 million reached in 2000.6 The main cause of this increase was that early 1980's economic diversification effort taken by the government. The Bahraini Government managed to deficit budget financed partly by domestic borrowing through issuance of Government bonds and treasury bills and notes and other source of aid and grants from the GCC countries. In the coming years private sector growth will play a major role in economic development.

Table 4.1: Bahrain: Government Budget, 1975-2000 (Millions of Bahrain Dinars)

	1975	1980	1985	1986	1989	1990	1991	1995	1997	1998	1999	2000
	A	A	A	A	A	A	A	A	A	B	B	B
Revenues	187.0	446.0	541.0	460.0	441.0	498.0	512.0	520.0	615.0	630.0	566.0	572.0
Oil Revenues	137.0	395.0	439.0	352.0	326.0	305.0	305.0	283.0	355.0	362.0	260.0	256.0
Non – Oil												
Revenues	50.0	51.0	102.0	108.0	115.0	193.0	207.0	237.0	260.0	268.0	306.0	316.0
Expenditures	191.0	317.0	509.0	495.0	468.0	536.0	534.0	642.0	704.0	705.0	726.0	732.0
Current												
Expenditures	78.0	192.0	344.0	355.0	354.0	435.0	394.0	492.0	553.0	n.a.	596.0	602.0
Capital Expenditures	113.0	125.0	165.0	140.0	114.0	101.0	140.0	150.0	151.0	NA	130.0	130.0
Surplus (or Deficit)	(4.0)	129.0	32.0	(35.0)	(27.0)	(38.0)	(22.0)	(122.0)	(89.0)	(75.0)	(160.)	(160.0)
Surplus (or Deficit/GDP (%)	(1.1)	1.0	1.4	(1.5)	(1.9)	(0.5)	(4.2)	(5.5)	(1.9)	(3.0)	(4.4)	n.a.

A=Actual; B=Budgeted; ( ) Indicates Negative.

Source: Survey of Economic and Social Developments in the ESCW A Region, 1998-1999 (New York: UN)

Increasing state expenditure has been major concern of the Government. During the oil boom period, Bahrain acquired unprecedented oil revenues, which has increased state public expenditure enormously. Government has been spending higher capital expenditure to stimulate the economy; the share of capital expenditure went up between 1974 and 1980 and declined subsequent years. However, in terms of its share, capital expenditure has declined in the seventies, it has grown rapidly in terms of The following table shows that percentage of state expenditure in Bahrain.

Table 4.2: Percentage of State Expenditure in the Gulf Countries

Country	1974		1980		1988		1993	
	CEX	CAEX	CEX	CAEX	CEX	CAEX	CEX	CAEX
Bahrain	57.0	43.0	48.0	52.0	75.6	25.4	78.9	21.3
Kuwait	21.4	78.6	64.8	35.2	74.7	25.3	87.1	12.9
Oman	56.6	43.4	82.4	17.6	84.5	15.5	82.8	17.2
UAE	81.8	18.2	83.5	16.5	98.8	1.2	96.1	3.9

CEX = Current Expenditure CAEX = Capital Expenditure

Source: Girijesh Pant, Arab Gulf Economies (New Delhi: Har Anand Publication, 1996),

The capital expenditure pattern over these years shows table Capital Expenditure 19741993, that for a decade 1974-84, the state has been increasing in volume. It went up from 28.8 to 210 million dinars, a rise by more than six times. The per-capita expenditure also went up.

Table 4.3: State Capital Expenditure 1974-1993

Year/Country	Bahrain mill dinars	Kuwait mill dinars	Oman mill riyals	UAE mill dirhams
1974	28.8	158	142.8	167.8
1975	50.7	-	173.0	302.7
1976	112.5	-	181.0	747.5
1977	143.3	283	130.0	1792.1
1978	148.3	567	89.0	1154.7
1979	-	515	-	912.9
1980	125.6	687	168.6	1022
1981	149.3	881	241.0	1248
1982	175.0	1113	285.3	2332
1983	221.0	928	290.7	1573
1984	210.0	1005	373.9	842
1985	164.3	719	437.7	550
1986	140.6	966	369.1	299
1987	118.0	740	238.3	227
1988	113.6	680	210.6	147
1989	113.1	643	189.9	133
1990	129.0	539	170.1	188
1991	110.0	69	238.4	320
1992	124.5	617	340.3	707
1993	125.3	564	321.1	593

Source: Girijesh Pant, Arab Gulf Economies (New Delhi: Har Source: Girijesh Pant, Arab Gulf Economies (New Delhi: Har Anand Publication, 1996),

The current expenditure part shows a contrasting trend in terms of its expansion. It had increased over these years the following table shows state current expenditure 1974-1993 periods.

The current expenditure part shows a contrasting trend in terms of its expansion. It had increased over these years the following table shows state current expenditure 1974-1993 periods.

Table 4.4: State Current Expenditure 1974-1993

Year/Country	Bahrain mill dinars	Kuwait mill dinars	Oman mill riyals	UAE mill dirhams
1974	38.2	737	186.5	573.8
1975	61.6	-	295.2	934.8
1976	78.4	-	374.2	1766.4
1977	100.2	980	374.0	4782.9
1978	137.0	1049	419.0	5842.1
1979	-	1117	-	7178.7
1980	191.6	1460	626.3	12311
1981	230.9	1696	787.0	17418
1982	298.7	1915	891.2	17648
1983	313.2	2161	1017.4	14737
1984	328.6	2042	1127.1	14827
1985	344.2	2158	1293.4	15485
1986	354.5	2009	1218.1	13076
1987	300.0	1906	1091.8	13031
1988	331.9	2018	1152.8	13038
1989	358.5	2258	1240.5	13325
1990	376.1	2394	1431.5	14254
1991	393.5	6564	1336.7	14928
1992	424.2	5267	1560.6	14864
1993	469.8	3813	1550.3	14829

Source: Girijesh Pant, Arab Gulf Economies (New Delhi: Har Anand Publication, 1996)

The growth has been faster till 1983-84 and is started becoming moderate in the late years. The major components of the state current expenditure have been wages and salaries and subsidies. About the state spending 80 percent of the budget expenditure wages and salaries bill only. The following table shows wages, salaries and subsidy Bill in Bahrain.

Table 4.5: Wages, Salaries and Subsidies Bills (Million National Currencies)

Country		1974	1980	1988	1993
Bahrain:	Wages and Salaries	77.3	108.5	234.4	284.3
	Subsidies	3.2	19.3	26.7	68.7
	Share in Current Expenditure	53.6	66.7	78.6	-
Kuwait:	Wages and Salaries	205	462	823	992
	Subsidies	389	496	569	1640
	Share in Current Expenditure	80.5	65.2	71.6	-
Oman:	Wages and Salaries	28.7	102.5	274.8	422.9
	Subsidies	31.4	40.2	94.5	117.5
	Share in Current Expenditure	32.2	22.8	32.1	-

Source: Girijesh Pant, Arab Gulf Economies (New. Delhi: Har Anand Publication, I 996)

Increasing size of wage bill apparently suggests that the rising number of employees with the state sector.1974-80 taken as boom period, 1980-88 as reversionary period and 198892 as deficit years in these periods growth of different components of the state expenditure shows that the wage bill went up by more than 500 percent, during the boom period, around 120 percent during the reversionary phase and 19 percent in the deficit year. The subsidies also raised by same percentage during boom period, about 62 percent during the reversionary phase and 30 percent in the deficit years. Concerned about the state expenditure policy, defense, education, health, social security and welfare had increased tremendously. These four together accounted for about 40 percent of the total expenditure. In 1974 their share remains the same in 1980 and in 1988 increased marginally i.e., 42 percent in 1992. The following table shows year wise increase of expenditure in four sectors.

Table 4.6: State Expenditure by Function in the Gulf Countries

Country		1974	1980	1988	1993
Bahrain:	Defence	9.3	59.2	70.4	94.6
	Education	7.4	34.1	55.0	72.0
	Health	6.9	24.5	34.1	49.3
	Social Security and Welfare	2.8	6.0	10.6	14.1
Kuwait:	Defence	134.0	262.0	374.0	869.0
	Education	77.0	198.0	382.0	538.0
	Health	30.0	110.0	207.0	235.0
	Social Security and Welfare	122.0	86.0	349.0	582..0
Oman:	Defence	117.8	407.0	519.0	679.5
	Education	5.6	37.8	146.1	209.4
	Health	12.2	23.2	65.1	108.5
	Social Security and Welfare	-	-	30.1	91.2

Source: Girijesh Pant, Arab Gulf Economies (New Delhi: Har Anand Publication, 1996),

During the last two decades, the public expenditure increased despite the declining oil revenues, one solution was that inviting privatizations programed into the non-oil sector. Rapid population growth has its being in infrastructure like needs better housing, water systems, sewage, public health care and city administration. The strategic needs to create the facilities Bahrain has to go for greater investment. The population increase main cause was that, the Bahrain has been adopted various pronatalist measures following the oil boom period. Since the early 1970s several measures have been adopted, with aim of encouraging high crude birth and fertility rates. Second measures to improve their educational systems as well. The Government spent impressive sums on educational objectives. Funds were allocated not only for the construction of schools and universities but also for the import of teachers from neighboring Arab countries.

Table 4.7: Bahrain Population: Natural Increase Rates, 1960-1996

	1960				1970			
	CBR	CDR	NI	TFR	CBR	CDR	NI	TFR
Bahrain	46.3	14.8	3.2	7.1	39.7	8.8	3.1	6.5
	1988				1996			
	CBR	CDR	NI	TFR	CBR	CDR	NI	TFR
Bahrain	39.5	4.5	3.5	5.8	27.5	5.8	2.2	3.7

Notes: CBR = Crude Birth Rate per 1000 people, CDR = Crude Death Rate per 1000 people, NI =Natural Increase(%), TFR =Total Fertility Rate.

Source: Joseph Kostiner, ed., Middle East Monarchies: Challenge of Modernity (London: Lynne Rienner Publisher, 2000).

Bahrain is the poorest of the GCC states and therefore has the greatest need to diversify as quickly as possible. Privatization process started in the 1990 onwards, it has identified in infrastructure sector like power and water, ports, telecommunications, transport, airports and industries.

"The government was committed to an active policy of privatization which will mobilize private sector savings." Aluminum Bahrain (Alba), is largest aluminium smelter in the Gulf region, which is majority owned by the government of Bahrain is invited private sector as a long-term candidates for privatisation. The total volume of companies for privatisation reached US $ 2 billion. Privatisation programed invited in power sector, private financing started as a foreign investor, It was committed to take a sizeable portion of the equity in the range of US $150 million to US$ 200 million. In Bahrain Stock Exchange Market play a very important role in promoting privatization programed. Bahrain Stock Exchange (BSE) has registered 34 companies traded with a total market capitalization of US $ 5.9 billion in 1994. Foreign residents in Bahrain were allowed to invest in the shares of local companies through mutual funds. 11 These funds will eventually be opened to non-residents and will be listed on the Bahrain Stock Exchange. Bahrain is active supporter of privatization programed; it has constituted Supreme Privatisation Council. Chaired by the Prime Minister Sheikh Halifax Bin Salman AL Halifax, Shure Council approved a draft of law creating a "master plan," which provides guidelines for the privatisation of government services. Council members will include the Ministers of Finance and National Economy, Commerce, Oil and Industry, and Labor and Social Affairs. They will be joined by five representatives of private industry described as "experts in privatisation".12 The Council's main task to formulate privatisation plans and set a timetable for the proposed sales. The development of the power and water has been prime candidate for privatisation. The demand for power growth risen 5 percent annually. To start, independent-power producer (IPP) concept was considered, where in a private body finances and develops the infrastructure and sells the product to the government at a prior arranged price. Under suitable conditions, IPP concept is the most favorable for Government, as it does not involve any capital outlay by the Government. The Government provides the necessary financial and legal guarantees for the private developer and passes on the revenue collected from the consumer. The Government has complete control on the tariff it charges the consumer depending upon the level of subsidy.

Bahrain's Ministry of Finance and National Economy signed a loan agreement in 18 April 2002 for US $ 225 to finance construction of the phase-II 700 MW pension of the AL-Hid electricity generation/ water desalination station. The government signed with the four-mandated lead- arrangers, BNP Paribas, HSBC, Bank of Bahrain and Kuwait and Bank of Tokyo-Mitsubishi. The facility comprises a US $ 200 million supported by Switzerland's ERG. The Swiss Export Credit Agency and a US $ 55 million Islamic Finance Liar WA Kiting facility. Kuwait Finance House and Islamic Development Bank have joined the US $ 55 million Islamic facility as co-arrangers. BNP Paribas was the facility agent for the Switzerland's ERG supported loan and HSBC Amana Finance was the facility agent for the Islamic facility.

This was the first time that an Islamic facility and an Export Credit Agency (ECA), backed loan have been structure jointly in the Middle East for product of this nature. The Islamic facility allows for a subsequent issuance progress, which was in line with Bahrain's desire to act as hub for Islamic Finance. This was a landmark transaction that brings Shari's compatible structure into a major project finance deal in the region. It reflected the confidence that international lenders have in the development of Bahrain and the country as a leader in the Islamic finance industry. This project fulfilled following major functions: fix transmission, distribution and periodical generation tariffs, subscription fees and service charges, grant licenses for generation, transmission and distribution, establish technical standards, ensue continued electricity supply; impose penalties on companies not fulfilling their service obligations; and general monitoring of the electricity generation and distribution system. The following table shows total installed capacity power stations in Bahrain up to 1997 period.

Table 4.8: Installed Capacities at Power Stations and Imported from Alba

(MW)						
	Alba	**Riffa**	**Sitra**	**Muharraq**	**Manama**	**Total**
1993	45	710	126	39	100	1,020
1994	240	710	126	39	111	1,226
1995	240	710	126	39	86	1,201
1996	240	710	126	39	111	1,228
1997	275	710	126	39	111	1,261

4.8.1 Annual Consumption of Electricity Per Capita

	Demand (Million kWh)	**Consumption (kWh)**	**Annual Increase (%)**	**Population ('000)**
1993	4,244.7	7,688.7	5.6	5,52,070
1994	4,550.1	7,002.0	3.9	569,333
1995	4,611.9	7,856.4	-1.7	587,028
1996	5,016.1	8,284.9	5.5	605,443
1997	5,040.4	8,070.3	-2.6	624,570

4.8.2 Sectorial Consumption of Electricity

(Million kWh)					
	Agriculture	Commercial	Industrial	Domestic	Total
1993	24	939	604	2,197	3,764
1994	27	1,065	668	2,328	4,088
1995	25	1,227	707	2,609	4,568
1996	29	1,241	737	2,651	4,658
1997	31	1,252	739	2,673	4,695

Source: MEED (London: UK), 11 December 1998.

The Government limits water consumption to 70 million gallons a day (g/d). Half of the water provided, was drawn from ground water resources, the rest was provided desalination. However the quality of ground water is deteriorating rapidly and some water experts believe that local aquifers use felt life would end very soon.

Water Distribution Network: Seven companies have submitted to the Electricity and Water Ministry for consultancy plant to be built at AL-Hid industrial area. The companies, which have bid for the work, were, Hider Consulting, Bennie and Partners, Montgomery Watson and Mott Macdonald, all of the UK. The US Parsons Corporation, and Lahrneyer International and Fechner, both of Germany. A consultant appointed by mid-1997 and work started in 1998.

The new water network will include the construction of reservoirs for storage, a treatment and blending plant, and pumps and transmission lines to take the water from the AL-Hid plant was expected to require treatment, including correcting the"PH and blending with brackish water to restore a balanced salt content, in order to reduce the pipe corrosion and to be fit for drinking. In Bahrain privatisation process slowly started, in the coming years, it will increase the private sector participation in the non- oil sector. In Bahrain telecom privatisation process has provided greater competition in the region. The Government has created a new company the Bahrain Telecommunications Company (Batclco's.) the Bahraini government has a 39 percent stake and the British Cable and Wireless a 20 percent stake, with capital of BD 60 millions. At the beginning of 1986 Bahrain became the 451h member of the International Maritime (now mobile) Satellite Organization, (INMARSAT), and during 1996 Batelco's also introduced a cellular 17 telephone system.

During 2002, the number of mobile communications users in Bahrain increased to over 3;90,000 Batelco's mobile communication business generated gross revenue of 72 million dinars, 39 percent of the company's over all gross revenue. Telecommunication Law 2002, under this law the telecommunication sector has got more liberalization in the country. The market was anticipated to be fully competition in 2004.

The law stipulates the opening up of the only one GSM license will be issued within six months from the effective date of the law and one more license of this type after the lapse of two years from the date of granting the first license. Batelco's Board Director has signed a BD 9,783,000 contract with Ericsson Radica Systems for further expansion of the country's GSM network capacity. There were around 2,83,000 mobile customers in Bahrain a market penetration level of 41 percent. The latest up gradation will allow network capacity to increase to 4,00,000 users. 19 The mobile market was primary area of focus for Batelco's, its rapid spread and development was evidence of the importance the company attaches to this state-of-the-art technology and its development in Bahrain for the benefit of all customers.

This project includes installation of two new gateways switching for mobiles and base station controller followed by the addition of 15 new ratios bare stations. This was expected to improve the performance in Manama, Musharraf, Isa and Rife. Batelco's, which has one of the most advanced networks in the region, already has joint ventures in Kuwait, Egypt, Saudi Arabia and Jordan providing Internet services and data communications. Batelco's signed another agreement a contract with Swedish Telecom firm Ericsson to expand Bahrain's mobile phone network to meet growing demand. The plan was to increase the network capacity to face the increasing demand on mobile lines. It signed two deals with Ericsson worth 3.7 million dinars ($ 9.8 million) to expand and upgrade the network. This expansion programed has increased the Baltic's GSM capacity from 2,30,000 to a 3,20,000.20 Batelco's role as a facilitator and enabler of the business in the country, "the provision of world class service of competitive rates IS important in attracting and developing Bahrain as base for international business.

Privatisation of the ports is part of the economic reforms. Like most of the Island states, Bahrain has always relied on the sea as a vital highway for transporting goods and services to and from its shares. The growth of Bahrain International Airport and the construction of a Giant Causeway, providing road access to Saudi Arabia, have not diminished the country's importance as a maritime hub in northern Gulf. Bahrain has a unique location in the center of the Gulf, which wants to take advantage of by handling more cargo and playing a greater role in the entire transport chain. Mina Salman Port - Incorporating 14 deep-water berths, two container terminals and a small vessel harbor is the center of Bahrain's sea freight business. This port located south of Manama, handled 1,43,024,20 foot equivalent units (TEUs).22 The ports primary local exporter is Aluminum Bahrain (Alba).

The Finance and National Economy Minister announced that the government invited private sector to form a company with an authorized capital of BD 100 mn ($263 mn) to run the Mina Salman Port and the Halifax bin Salman Port, which is scheduled to become operational in 2005.23 The project is open to both Bahraini and non-Bahraini individual and institutional investors and the Bahraini Government will take up any equity not subscribed by private investors. The new company responsible for managing the ports, while certain services such as customs remained in the Government hands.

The land and infrastructure of the ports leased from the Government on a long-term contract. Management of the port transferred to the company in 2003. Bahrain abiding ambition was to turn the economy away from it past dependence on oil. The Government has constantly directed investment into new sectors and the dream of transforming the region's oldest oil economy into a home for industries is becoming a 24 real try.

Privatization has involved in industrial giants such as Aluminum Bahrain (Alba), and Aluminum Extrusion Company (Calexico). Alba is the biggest aluminium producer in the Middle East. The Bahraini Government holds a 77 percent stake in Alba, the Public Investment Fund of Saudi Arabia owns 20 percent and Germany's Briton Investment holds 3 percent. Alba has the capacity to produce 5,00,000 tons a year (t/y) of Aluminum and accounts almost half of the country's non-oil exports. Alba's massive expansion plan taken place under the private sector participation the estimated cost of US $ 1, 700 million. The proposed expansion centers around the installation of a fifth pot line that has increased output from the plant's capacity to about

7,50,000 tons a year (t/y) from 5,10,000 (t/y) in 2002, Alba would at stroke become the largest smelter in the western world.26 The US Kaiser Engineering, which was awarded the feasibility study contract for the expansion. The second industry Bahrain Aluminum Extrusion Company (Calexico) started production in 1977. Private sector participation taken place in the expansion of BD 10 million programmers to upgrade and integrate its existing facilities. The expansion element involves trebling extrusion capacity to 20,000 (toy), through the addition of two new extrusion lines.The second part of modernization had taken of existing installations. The third and final element was intended to improve the integration of the plant. The Calexico privatisation programed intended to keep the company at the forefront of region's extrusion business and to maintain record-breaking financial performance. This was the privatisation process in industrial sector has involved in Bahrain. Performance

The privatisation performance has been mixed in nature. Bahrain Telecommunication Company (Bate Leo) is example of successful implementation of privatisation in the region. The Bahrain communications market and the monopoly operator Telco could sustain effective competition in cellular service. After privatisation of Batelco's the net profits in the 2001 first quarter were 12.8 million dinars ($ 33.9 mn). At the same time mobile phone call charges were cut. The monthly rental charges were reduced by up to 40 percent and call charges by up to 26 percent. The number of mobile plus customers in Bahrain has increased 10 fold to around 3,00,000 since it was first launched in 1995, 46 percent of Bahrain's population were mobile plus customer. In terms of mobile penetration, Bahrain has the fourth highest percentage of mobile users in the Middle East; others are the UAE, Kuwait and Lebanon. Another major advantage of privatisation, Telco announced to cut international call charges, International Direct Dialing (IDD), by up to 32 percent from September l, 200 l. IDD for both peak and-off peak periods were to be slashed by between 20 and 23 percent. 29 Telco said IDD tariffs in Bahrain were among the least expensive in the region.

Bahrain Telecommunication Company, made profit increase, its revenue and profit were also both up in 2000; the total revenue has grown by 14 percent and the net profit before appropriation by 3 percent to US $ 75.6 million.30 The rise in profit comes as a relief to Telco, which was facing the prospect of losing its monopoly. Privatisation process in Telco was one example of successful implementation and it reduced call charges and provided better services to the consumers.

The third privatisation implementation programed taken place in the port sector. In 2002 Prime Minister laid the foundation stone for the first phase of a new US $ 420 million port complex and industrial development zone on 110 ha of reclaimed land as South Hid. On its completion in 2004 or early 2005, the new port will create greater expansion of annual handling capacity of 2,34,000 20 ft. (TEUs) and will include general cargo berth and two container berths with roll-on-roll-off facilities.31 This was one of the successful private sector involvements in the port sector in Bahrain's privatisation programed.

The fourth sector was Industrial Sector, the continued path of economic diversification, (Alba), and industrial expansion is one policy, privatisation programed introduced. This is Bahrain leading industry and the Gulf largest aluminium producer. The long-term outlook for Alba is very bright, it is a low cost production and ranks sixth the list of world's 32 lowest cost.

Now it produces 5,00,000 tons a year. The private sector expansion and upgrade programed has increased the production 7,50,000 tons a year. This is one example of privatisation involvement on Bahrain industry, the government has committed for its diversification agenda to implement successfully. Implementing Difficulties in Privatisation Programmed Implementation of privatisation programed in Bahrain faces similar problems to restore unemployment among nationals. The Government has passed a ,policy of "Bahrainisation" under this national's make 90 percent of the public sector workforce and in the private sector only 28.5 percent work force employing. There was a major Bahrainisation drive underway, led by the Government and the General Committee for Bahrain Workers (GCBW), which were seeking to provide improved training for Bahraini youths approaching hircine. Several Bahraini companies including banks, service sectors and some manufacturing facilities have more than 90 percent Bahraini staff. In early 1996, the government of Bahrain announced quota requirements for the percentage of Bahraini employees to be employed by firms of varying sizes. Every company must have at least one Bahraini employee; those employing more than 10 workers must increase their Bahraini percentage by 5 percent per year up to 50 percent; all new projects should launched with minimum of 20 percent Bahrain's employees, to be increased by 5 percent per year. 33 It was announced that Government contracts and purchase orders will not be awarded to companies which fail to fulfill these requirements and companies employing more Bahraini's will receive preferential treatment when government contracts are awarded.

However, any improvement in the private sector employment would depend on skill levels but in Bahrain nationals' lack of skill workers. It would take time to have graduate in technical occupations. This has been the major obstacle to recruit nationals in private sector. Employers blame the education system for failing to produce the kind of quality and technical training and education.The employment also claims that Universities should devote more resources to the teaching of exact sciences, computers and finance rather than to the arts, social sciences and Islamic Studies. Second obstacle of implementation of privatisation policy the preference of nationals for public sector rather than private sector employment, as government work provides more convenient working hours, job security and attractive wages. Private sector companies prefers .employing foreign workers for several reasons notably that wages demanded, by foreign workers were generally much lower than those demanded by nationals and the local lacks work ethics.

The third obstacle to privatisation policy has been cultural values and social attitudes. Most of the jobs in the private sector are manual jobs-the society in GCC states holds negative attitudes for manual jobs. One of the main contributory factors was the association of these jobs with low-paid expatriates. J.Baxter reported that, for youngsters leaving school the barriers against desirable career paths are almost mythical. They will not accept jobs as salesman because this does not benefit their social status, they will not take workshop jobs where there is a threat of physical danger, and low salaries are considered as insult to them. 35 Political leaders in GCC states have repeatedly appealed to locals to change their attitudes towards these jobs. The main solution was that to provide training to these employees. The private sector can play key role in training them, as it accounted for 81 percent of the estimated BD 50 million ($ 132.6 million) that was spent on training scheme each year while Government spending on training only accounts for the remaining BD 9.5 million ($ 25.1 million).

To encourage more training the government has imposed special levy on all companies with more than 100 employees. This obliges them to pay the equivalent of 1 percent of Bahrain salaries, plus 3 percent of the expatriate pay roll, which was returnable against the cost of providing staff training. This training process will take time period to recruit more national in the private sector.

The early exhaustion of oil deposits in Bahrain resulted in early diversification of Bahrain economy. The state pioneered economic diversification in the Gulf region and prepared early for the post-oil era. Therefore Bahrain wanted to keep maintaining the early success of economic diversification. Although Bahrain's finance was reasonable shape but still needs to attract foreign investors and create new jobs for its growing population.

Qatar

With per capita income of US $ 30,000 Qatar is ranked as the wealthiest nation. So for oil sector has been the mainstay of economy accounting for one-third national output. Though Qatar is not oil rich country, it has vast reserves of natural gas around five percent of the world's total. Its production reached 1,600 million cubic feet in the year 2001. The non-oil economy is supported by industries, such as, fertilizers, cement, banking, chemicals and steel. The economy faced the crisis like other GCC countries, with declining oil revenues leading to deficit budgets, rising debt services, and the growing burden of population growth of three percent annually. Being oil dependent economy Qatar thus faced the impact of declining oil revenue in its developmental projects like, infrastructure project and other economic activities in the country. Oil prices were fluctuated severely during the 1980s, and the 1990s. (See the table, which shows an average oil price during 1970-1998 period).

Table 4.9: Average Price of the Crude Oil Basket, 1970-1998 (US dollars Barrel)

Years OPEC	Basket Price
1970	1.67
1975	10.73
1980	28.67
1985	27.01

1990	22.26
1995	16.6
1997	18.68
1998	12.33

Source Survey of Economic and Social Developments in the ESCW A Region, 1998-1999.After the Gulf war oil prices started declining, it was in the 1997 when prices fell down to US $ 18.7 per barrel, Qatar decides to review its policy. 38 During the oil boom period Qatar has got enormous oil revenues; but the revenues started declining since 1984 onwards. Declining oil revenue has been the factor, which leads to the privatisation in the non-oil sector development.

Table 4.10: Qatari Budgets: 1991-1997 (QR ma)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Revenues	8,438	9,607	10,373	8,360	9,204	10,797
Expenditures	11,706	12,399	13,076	11,830	12,735	13,747
Current Spending	9,811	10,114	10,368	9,809	10,511	11,520
Capital Spending	1,895	2,285	2,708	2,321	2,224	2,227
Public Works/Infrastructure	787	911	994	1,031	931	1,063
Economic Services	725	835	1,059	1,022	928	836
Social/Health Services	219	401	552	50	280	273
Education/Youth	64	138	103	67	85	56
Deficit	3,268	2,792	2,703	3,470	3,531	2,950

Source: MEES 39:30 (Cyprus: Nicosia), Vol. XXXIX No.30, 22 April 1996.

Table 4.11: Qatari Budgets: 1998-2003 (QR mn)

	1998-99	1999-00	2000-01	2001-02	2002-03
Revenues	12,354	10,533	12,617	18,057	18,207
Expenditures	15,660	14,136	15,400	17,560	20,026
Current Spending	13,926	12,680	13,378	14,400	15,635
Capital Spending	1,734	1,456	2,022	3,160	4,391
Public Works/Infrastructure	797	692	1,545	2,293	3,086
Economic Services	619	448	-	-	-
Social/Health Services	241	250	384	705	887
Education/Youth	77	66	93	162	148
Deficit - Surplus +	-3,306	-3,603	-2,783	+497	-1,819

Source: MEES 45:14 (Cyprus: Nicosia), 8 April 2002.

One of the factors behind the deficit problem was ever increasing current expenditure. Current expenditure is consistently growing at higher rates. (See the above table). Some of these increases were due to population growth and technological changes in society. Nevertheless, a large part of other current expenditure being increased cannot be economically justified, especially when many public services are still provided with free of charge or at below cost, for example, electricity and water sector.

It was evident that one of the main causes of high expenditure was the public services system and numerous direct and indirect subsidies and incentives provided by the Government to the consumers and producers. Subsidies were given across the board and indiscriminately to all groups; for example, water and electricity represent 70 percent.40 These Government policies represented deficit budgets in the State. Qatar faced major problem of debt services. The State's total external debt was rising, and total external debt, including project finance, grew from US $

4,508 million at the end of 1995 to$ 9,796 million by the end of 1998, with the Government share of Qatar's external debt representing the borrowing to finance the fiscal deficit totaling US $ 2,961 million as 32 percent of GOP in 1999.

In 2000 it was estimated at US $12,823 million, 87.6 percent of GOP, of which US $ 5,651 million was direct Government' debt. US $1,654 million was Government-guaranteed debt and US $ 4,868 million was increased for project development by subsidies of State hydrocarbon enterprises. By the end of 200 1 total external debt has risen to US $ 13,223 million, of which US $ 7,305 million was Government direct debt, US $ 5,268 million debt was incurred for project development by QP subsidiaries, and US $ 650 million was other Government guaranteed debt.42 Having peaked at 95.5 percent in 1998, the external debt to GOP ratio was reduced to 76.5 percent by the end of 2001. Debt repayment due rose to ·us $1,435 million in 2002 but was projected to fall steadily to US$ 380 million in 2005.

The following table and figure show Qatar's debt service during 1996-2001 period:

Table 4.12: State of Qatar External Debt, Including Government Guaranteed Debt 1996

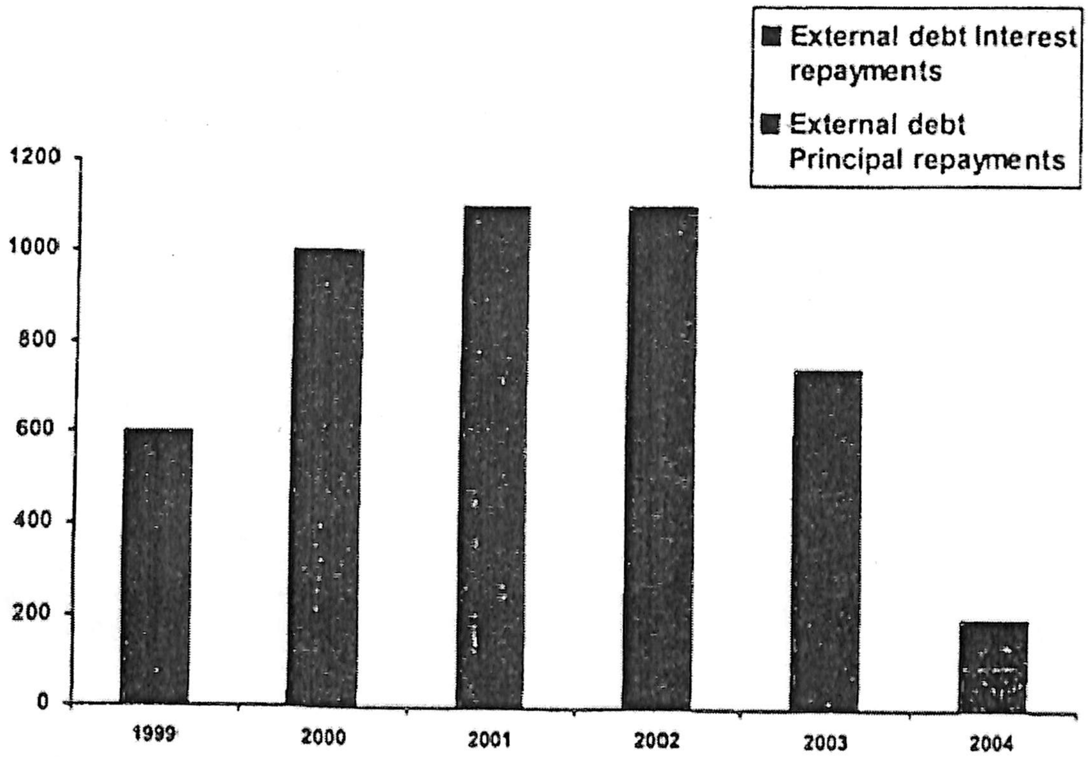
2001 ($ million)

	1996	1997	1998	1999	2000	,2001
Total Govt. Debt*	2,863	3,620	4,494	5,405	7,305	7,305
QP Subsidiaries Debt	2,965	3,988	4,192	4,868	4,868	5,268
Other Current Debt	1,353	1,419	1,110	683	650	650
Total external Debt	7,181	9,026	9,796	10,953	12,923	13,223

This comprises government and government guaranteed debt.

Source: MEED (London: UK), 2 November 2001

Figure 4.1: Qatar's External Debt Payments ($million)



Source: MEED (London: UK), 3 March 2000

Qatar registered population growth rate of 3.62 percent. This growth has adversely affected the economic development and put burden on infrastructure, because growing population needs more and more facilities like water, electricity, housing, better health care, and education system. For this, the Government has to invest in these sectors, which have needed more investment. Further, the decades of high population growth led to increase in number of young people, and create unemployment problem.43 The absolute number of children under age of fifteen years has continued to increase. The following tables show Qatar's population increment, 1995-2015.

Table 4.14: Qatar Annual Population Increment, 1995-2015 (Thousands)

Country	1995-00	2000-05	2005-10	2010-15	Total Increment
Qatar	51	48	45	40	184

Source: Survey of Economic And Social Developments in the ESCW A Region 1999- 2000 (New York: UN Publication, 2000)

Table 4.14: Qatar Population Size: Population in 1978, 1988 and 1998

Population size (Thousands)									
	1978			1988			1998		
Country	Male	Female	*Total*	Male	Female	Total	Male	Female	Total
Qatar	133	71	204	290	139	429	369	199	568

Source: Survey of Economic And Social Developments in the ESCWA Region 1998-99 (New York: UN Publication, 2000)

The emphasis diversification of Qatar economy to reduce its dependence on oil exports has resulted in adoption of economic reforms. In the year 1995, change of leadership has taken place. Under the leadership of Emir Hamid Bin Halifax AL Thane Qatar has embarked on a highly publicized programed of political and economic reforms involving liberalization and steps towards democratisation.44 Indeed, Emir Hamid has made these programmers as one of the central planks of his rule, and has aggressively used these reforms as a means by which to assert Qatar's autonomy and distinctiveness from his GCC neighbors. Qatar's reform has revolved around three important themes encouragement of the private sector, freedom of expression and democratisation.45 In July 1995 Doha Stock Market was established with the clear intent of opening of the way towards privatisation of State assets and boosting the role of private investors. Qatar has around 21 companies trading their shares; these companies' market capitalization is shown in the following table.

Table 4.15: Market Capitalization of Companies Quoted on the Doha Securities Market

Ranking Company	Sector	Market Capitalization (QR)
1. Qatar Telecom	Telecommunications	8,700,000,000
2. Qatar National Bank	Bank	4,775,755,512
3. Qatar National Navigation and Transport Company	Services	1,110,000,000
4. Qatar Electricity and Water Company	Services	1,000,000,000
5. Commercial Bank of Qatar	Bank	968,994,012
6. Doha Bank	Bank	860,835,938
7. Qatar Insurance Company	Insurance	676,800,000
8. Al-Ahli Bank of Qatar	Bank	618,750,000

9. Qatar National Cement Company	Industry	515,994,650
10. Qatar Islamic Bank	Bank	500,000,000
11. Qatar Real Estate Company	Services	345,000,000
12. Qatar Shipping Company	Services	330,000,000
13.QatarIndustrialManufacturingCompany	Industry	264,000,000
14. Qatar International Islamic Bank	Bank	259,000,000
15.Qatar General Insurance and Reinsurance Company	Insurance	219,000,000
16 Qatar Flour Mills Company	Industry	114,000,000
17. Al Khaleej Insurance Company	Insurance	74,400,000
18. Qatar Cinema Company	Services	49,737,600
19. Al Ahli Private Hospital	Services	32,647,156
20. Qatar Islamic Insurance Company	Insurance	12,000,000
21. Qatar Leisure Company	Services	12,000,000
Total Market Capitalization		18,558,914,868 $5,098.6 million

Source: MEED (London: UK), I 0 March 2000.

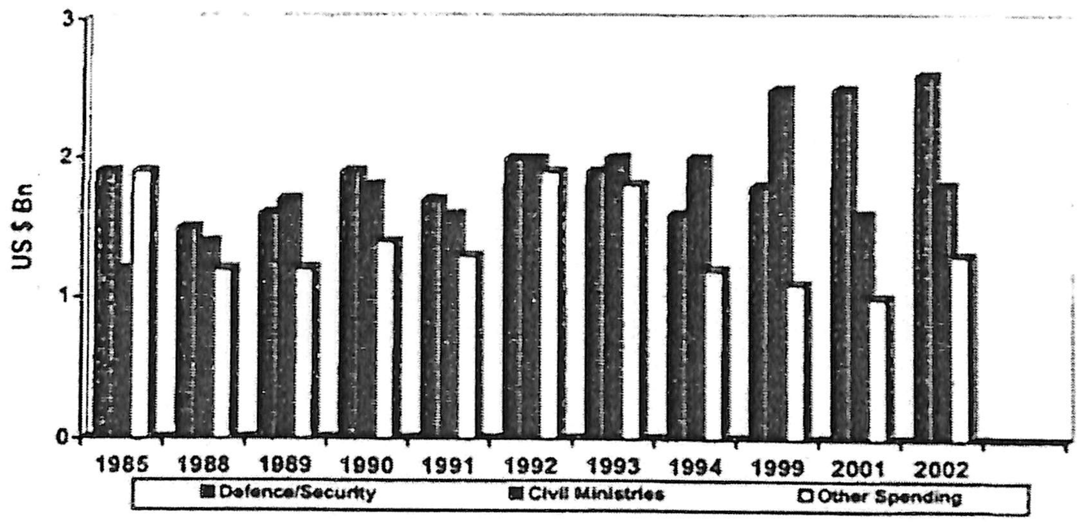
Qatar status is one of the region's most active project markets. According to one survey, the total size of the Qatar project market has reached US $ 30,145 million during the period 2003-2005, second only to Saudi Arabia in the GCC in terms of value. The size of the local project market was all the more striking given that Qatar's economy is the second smallest in the GCC after Bahrain's. The following figure shows GCC market capitaltsation.

Oman

Oman is also not very rich with oil reserves, but oil dominates the economy. It accounts for 78 percent of the exports and 37 percent of gross domestic product (GDP). Gas reserves stand at 27.42 million cubic feet (MCF).80 Among non-oil sector, agriculture and fishing are the traditional way of life in Oman. The major challenges facing the economy paving the way for privatisation were, declining oil prices and revenues, raising budget deficits, increasing defense expenditure and subsidized utility services For more than two decades, security was given top priority in response to South Yemen's Marxist-Leninist regime, 1979 Revolution in Iran and 1990-91 war in the Gulf, which events have created insecurity in Oman.81 The Government was more concerned about increasing defense expenditure in the Gulf region. According to the Stockholm International Peace Research Institute (SIPRI), Oman's defense expenditure. And national security expenditures have been among the highest in the region, representing about 23 percent ford. Among the top 10 defense expenditure countries, Oman occupies the first place. At present defense and national security spending in Oman alone consumes the equivalent of 78 percent of all civilian recurrent expenditures combined more than three times expenditures on education, and seven times expenditures on health. 82 The absolute increase of such spending means that any economy that might be achieved, which could have a far great impact on the Government's financial position than those achievable anywhere else. Clearly Oman has much to gain by if possible substituting collective security arrangements for defense spending. The Fifth Development Plan (1996-2000) allocated a total of OR 3,300 million, for defense expenditure over the five-year period.

The following figure shows the year wise allocation of defense expenditure in Oman

Figure 4.4: Structure of Oman Revenue and Expenditure 1985-2002

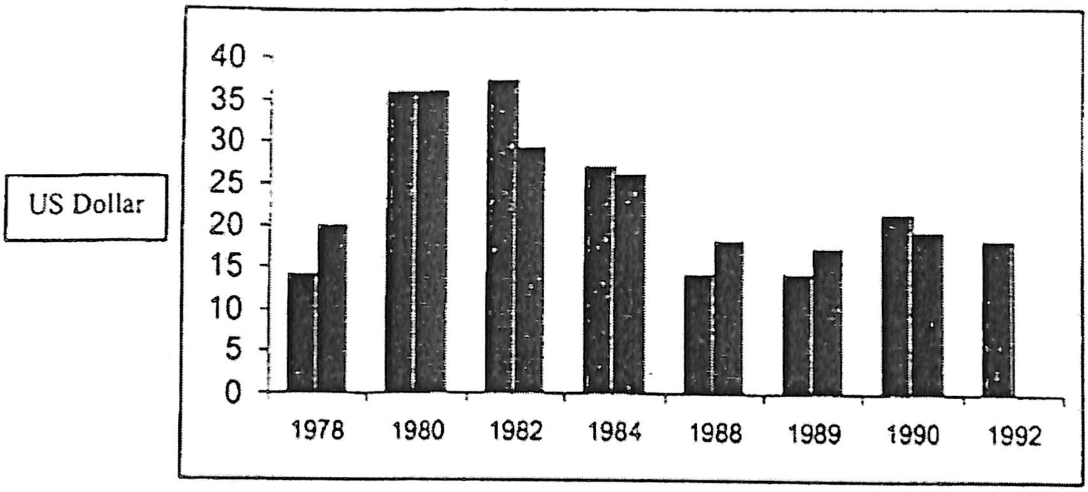


Source: MEES 38:9 (Cyprus: Nicosia), 28 November 1994.

Since oil-sector contributes for 70-80 percent of the Government revenues, fluctuation of oil prices in international market has impact on the budget. The Government has to compensate for this volatility by increasing non-oil revenue or reducing expenditure. RJ During the oil boom period, Oman oil prices were increased by an almost tripling between 1978 and 1981 and reached highest level US$ 36.92 a barrel. In the later year prices started declining steadily over 1982-85 and then plummeted in 1986 to US $13.43 a barrel, I title more than a third of the 1981 peak price; following some recovery in 1987, prices fell back to close 1986 level in 1988. They were held in the US $16 to US $18 range over 1989-92, except for 1990, when the Gulf war pushed the average price up to US $21.43 barrel. 84 The following figure shows export of oil prices, 1978-1992.

Table shows average oil production and price during 1980-99 in Oman.

Figure 4.5: Average Crude Oil Export Prices, 1978-1992



Source: Sultanate of Oman: Sustainable Growth and Economic Diversification (Washington DC: World Bank Publication, 1994)

Table 4.16: Average Oil Production and Price in 1980-1999

Year	Average Daily Production of Oil (in '000 barrels per day)	Annual Production of Oil (million barrels)	Average Oil Price (US $/barrel)
1980	283	104	36.83
1985	498	182	26.99
1990	685	250	21.27
1995	852	313	16.39
1996	885	325	19.42
1997	904	330	18.62
1998	899	328	11.92
1999	904	330	17.35

Source Investment in Oman (Muscat: KPMG Publication, 2001)

Increasing public expenditure was major concern for Oman. In Oman education and health care systems are free. This situation has led to excess demand for the services involved and unnecessary costs to the Government. There was a need for realistic user fees in health and education in order to achieve better alignment of costs and benefits and to curb waste. 85 Free medicine and doctors' consultations led to excess demand, waste and an eventual deterioration in standards, as arbitrary ceilings have to be imposed on spending. In Oman the number of visits to public health facilities encouraging free access is abnormal (about 5 visits per person per year). There was also over consumption of laboratory services and other forms of health care in general. Over and above the problem of excess demand for public services, and of very expensive supply could partly be attributed to widespread inefficiency.

The Government Civil Employment of Oman has grown in recent years at a rate of substantially in excess of the rate of population growth, despite substantial evidence of excess public service employment. Furthermore, not only is the efficiency both employees and of Government organization and procedures low but the remuneration of public employees is typically more than that of private sector counterparts. Civil Servants' salaries and wages represent the major component of civilian recurrent expenditure, averaging 36 per cent of the total during 1987-91.86 Excess demand growth for public services, and expensive and inefficient supply were multiplicative in their effects on the growth of public recurrent expenditures, and appear to constitute the essential cause of their apparently inexorable rise. The forces driving the strong expansion of civilian recurrent expenditure since the start of the oil era could not have produced the growth, which was realized without a loss and within the permissive budgetary environment. Administrative reforms designed to improve budgetary planning and management cannot be succeeded if there was not a strong ministerial commitment to control expenditures. 87

The problem of stemming growth of public recurrent expenditure must be tackled on a number of different fronts; the imposition of significance user charges to prevent excess demand and waste; the reduction of public service overstaffing; the reduction of public/private wage and salary differentials; and much firmer budgetary control backed by a clear public commitment to higher levels of public saving. In Oman oil revenues constitute an average of between 75 to 80 percent of the total budget revenues. In 1996 oil price was declined about 32 percent, which had significantly affected on economic activities in the country. The non-oil revenues were decreased by around 47 percent, from RO 4I4 million in I985 to RO 22I million in I986.88 (See table for Oman Government budgets and figure shows deficits). This deficit was highest and then it came down in I990 to only RO II million. Due to increase in non-oil revenues that increased by around 40.7 percent, from RO 1,129 million in 1990, deficit budget again was increased during the period of I991 to 2000. Oman's effort to balanced budget was not succeeded owing to significant fall in oil prices below of the plans base price of US $15 per barrel. Consequently, the private sector participation in non-oil sector was thought to achieve a balance budget in the coming years.

Table 4.17: Oman: Government Budget, 1980-1998 (Millions ofriyals Oman)

	1980	1985	1986	1989	1990	1991	1995	1997	1998
	A	A	A	A	A	A	A	A	B
Revenues	829.0	1398.0	895.0	1349.0	1859.0	1585.0	1852.0	2003.0	2012.0
Oil revenues	607.0	984.0	674.0	1129.0	1588.0	1241.0	1373.0	1502.0	1497.0
Non-oil Revenues	222.0	414.0	221.0	220.0	271.0	344.0	49.0	501.0	515.0
Expenditures	795.0	1731.0	1587.0	1645.0	1870.0	1853.0	2331.0	2266.0	2307.0
Current Expenditures	626.0	1293.0	1218.0	1361.0	1570.0	1463.0	1874.0	1815.0	1825.0
Capital Expenditures	169.0	438.0	369.0	284.0	300.0	390.0	457.0	451.0	482.0
Surplus (or Deficit)	34.0	(333.0)	(692.0)	(296.0)	(11.0)	(268.0)	(479.0)	(263.0)	(295.0)
Surplus (or Deficit/GDP (%)	63	(7.6)	(1.8)	(7.4)	(9.5)	(10.5)	(6.3)	(0.7)	(4.1)

A= Actual; B=Budgeted. ( ) Indicates Negative;

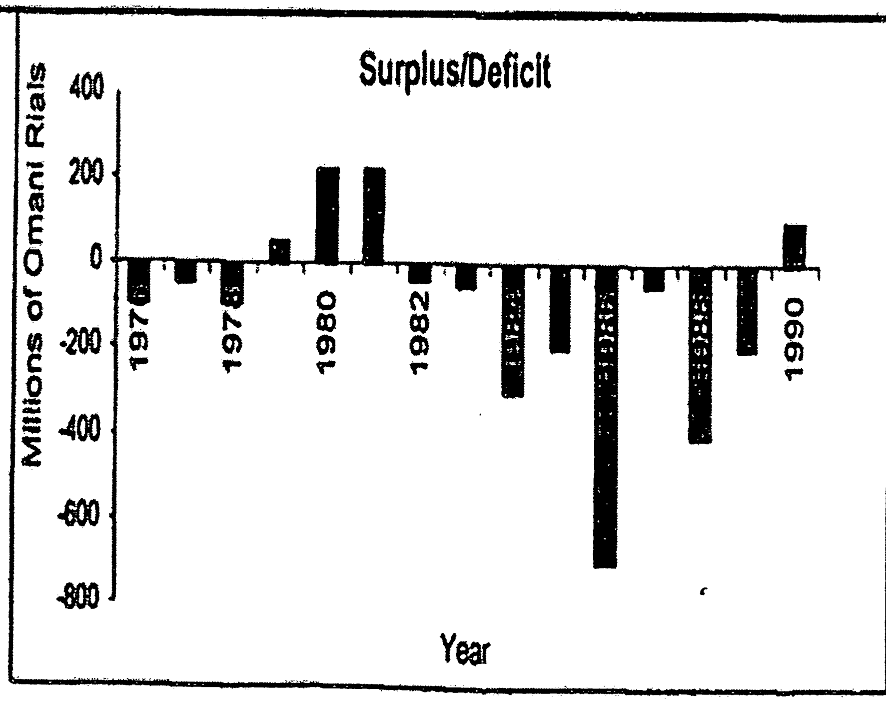
Source: Survey of Economic and Social Developments in the ESCWA Region, 1998-1999

Table 4.18: 0man: Government Budgets 1999-2001 (RO Million)

	1999	2000	2001
Revenues	1,796 6	2,289.9	2,539.8
Oil Revenues	1,201 6	1,721.0	1,875 0
Non-oil Revenues	519 8	455 3	567 2
Expenditures	2,269 0	2,656.2	2,860 2
Current Expenditure	1,808	2,091 9	2,187.8
Surplus (or Deficit)	(477 9)	(266 3)	(221.0)

Source: The Middle East and North Africa, Year Book-2004 (UK: Europa).

Figure 4.6: Government Revenue, Expenditure and Deficit 1976-1991



According to the United Nations Economic and Social Commission for Western Asia, the Survey for the ESCW A Region for 1998-1999 highlighted the privatisation process as "Oman took leading role in implementing economic reforms and measures to encourage greater role by the private sector and foreign investment in the economy."89 Oman was ahead of other GCC members in implementing privatisation process. The main intention of privatisation was to reduce national economy dependence on public spending and to provide competitive environment and improve efficiency. 1993 onwards privatisation got very important role in Oman's economy. It has provided greater efficiency. Oman Government has declared "1998 the year of the private sector", which had played a leading role in Oman's efforts to develop the new strategy. Accordingly, for sustainable development, privatisation must play a dominant role and public sector needed to withdraw from all areas where the private sector can take over with efficiency and competitiveness. Privatization is a key focus on Oman's Vision 2020, and the fifth and sixth five-year plans have given top priority on private sector development Oman has joined the World Trade Organization (WTO) Membership in October 2000.91 This has given major boost to the privatisation process. Sultanate has liberalized the service sector to attract Foreign Service Suppliers who will bring investments, technology and technological experts to Oman. For the private sector development, Stock Market play very important role; Oman's Stock Exchange Market is relatively small. It was established in May 1989, that time there were 71 companies listed. In 1996 there were 93 companies with total capitalization of US $ 1.5 billion. The following table shows structure of Gulf stock markets.

Table 4.19: Structure of Gulf Stock Markets: 1994

Country	GDP (billions of US dollars)	Market Size Capitalization (billions of US dollars)	Annual Turnover (millions of US dollars)	Number of Listed Companies	Market Index Percentage Change 1994
Oman	9.9	1.5	300	68	28.5
Saudi Arabia	120.8	38.0	6,632	67	-28.75
Kuwait	321.5	11.3	1,950	47	-1.8
Bahrain	4.3	5.9	200	34	-21.2
United Arab Emirates	35.9	10.0	200	77	-5.0

Source: Survey of Economic and Social Developments in the ESCW A Region, ESCW A Study on Privatization in the Gulf Countries E/ESCW AI ED/1995/8 (New York: UN).Oman's privatisation process is based as outlined in the fifth-five year plan which includes following:

• Privatisation forms a part of the Government's programed aimed at achieving sustained development and to raise the growth ratios and to distribute the firms of development to all regions and all sections of the public.

• Priority in privatisation shall be given to service sectors that operate on a commercial basis such as sewage, electricity, water, communications and speedways, etc. However, while privatising these services, the financial and administrative capability of the private sector to run such activities shall be taken into consideration

• More than one company shall be set up, as far as possible, to provide the required service in order to have competition among them and where by the Government can evaluate and compare the performance and efficiency of each of them.

• Foreign participation in the privatisation projects shall be encouraged in order to benefit from the foreign capital and technical and managerial expertise. However, this shall be pursuant to the provisions of the foreign capital investment law. In the long-term the privatisation programed tams to attract private investment for infrastructure projects. Sectors earmarked for BOT schemes include power and water projects, roads, and sewage and port sectors. None of these sectors had private sector in the region earlier, as all infrastructures were built and owned by the Government.

Privatisation processes invited m infrastructure sectors are: power, airport, telecommunication and industry. The need to expand utilities has been fell on to rising population. Total electricity generating capacity in Oman rose from479 MW in 1981 to 1,794 MW in 1999, in which a total of 31 power plants were in opcration.'13 Privatisation programed started in power sector in 1994. The AL-Mahan power plant not only Oman's first taste of privatisation, but also the first green field IPP in the region. For the 90 MW power station at Almena, a contract was signed with United Energy Company; a private sector consortium formed from four Oman's and three Belgian Companies to BOOT basis.94 The estimated cost was US $ 240 million; the company will owns and operates the power station for a period of twenty years and then hand it over to the public sector. The forty percent of the shares in the project has been offered to Oman and the GCC nationals. This is the first privately owned power station to come on the stream in the Gulf States and marked an Important steps of the

Government s privatization programed. The second IPP in Oman is AL-Kamal power plant at Sharia Sands, which was operated in 2000. The contract awarded to International Power UK for the construction and operation of a 285 MW gas based power plant on a BOO basis. The commercial operation of the project was started in 2003.96 The third IWPP at Sara was awarded in 2000; the company invited was AES Corporation of US. The production capacity of this plant was 427 MW, and 40 Million gallon a day (g\d) of water output. This project was started for commercial use in April 2003. The fourth power project at Shalala power station was awarded in 2001; Shofar Power Company won a 20-year concession to implement an integrated power project, entailing the construction and operation of a 200 MW power. It was a gas-based plant on a BOT basis. Shalala Power Plant was a pioneering project in the GCC region. This project started commercial operation in 2003. The developer will be responsible for all power generation, transmission, and distribution in the area. It will also billing to customer directly from AL-Mahan, where private developers built a power station and now sell the electricity to the Movement.

The following table shows the status of Oman privatisation programed.

Table 4.20: Status of Oman's Privatisation Programmed

Sectors	Projects	Foreign Investor Stake (%)	Strategic Partner	Status
Power	AL-Kamil-IPP	100*	International power	Financial close achieved on the $120 million project in mid March
	Barka-IWPP	100*	AES with multi tech	Financial (close pending on estimated $ 430 million project.
	Salalah Power System	81*	PSEG Global	Financial close on the estimated $270 million scheme due in the third partner
Airports	Seeb/ Salalah	75	tba	The government is aiming to formally appoint a strategic partner in the third quarter
Telecoms	Omantel	34	tba	The government with its adviser Merrill Lynch, is continuing to seek interested parties

*In order to accelerate the programed, foreign investors have been granted a I 00 percent ownership in the power projects. - to be appointed, IWPP- Independent water and power project, IPP- Independent power project

Source: MEED (London: UK), 4 May 200 I, p.31.

The demand for domestic water supply has been increased sharply in recent years with the construction of housing and commercial premises to accommodate and serve a rising population with higher living standards than ever before. Private sector was invited into two water projects.

1. Muscat waste water system: Plans to build a waste water system to serve Muscat, which was first proposed in 1995. Made progress in 1999 as a consortium led by local Gal far Engineering and contracting entered into negotiations to undertake the project on BOOT basis.98 Revenue will come from connection fees, user fees and sale of treated wastewater to the municipality.

2. Maserati water: In 2000 speeder progress was made on water supply scheme at ALMasarrat, the main contract that was awarded to an Egyptian Company. Construction work was completed successfully as part of a two phase scheme bringing drinking water to towns and villages to the south of Muscat. One of the principal benefits from the privatising airport sector was that it reduces budgetary pressures on the Government. The civil aviation as one of the main public utility sector seeks greater competition among the GCC countries. The Government has invited private sector in this sector. Oman Aviation Services Company (OAS) activities include the provision of contract air services to Petroleum Development Oman (PDO) and the operation of a national carrier. Its main aim was to privatize the international airports. The processes were involved in the expansion of airport facilities and in the increase of its passenger numbers. The Sultanate of Oman has six Civil Airports at See, Shalala, Sur, Messiah and Kasha and Obie in MAs undam. The privatization process has taken the two international airports, one at See International Airport outside Muscat, another Shalala International Airport. In 1998 the Government appointed a financial consultant to oversee the privatization operation and management of See International Airport. A two stage expansion plan for the airport envisages an increase in capacity from the current 2.8 million passengers per year to 6 million by 2004 and to 10 million by 2010 at an estimated cost or US $ 5,000 trillion.

Oman's second largest airport at Shalala was situated in the southern region of Doha, earmarked for privatization and was upgraded to receive cargo and passenger aircraft of all sizes. Shalala airport handled 1,80,000 passengers in 1999. In September 2001 a consortium included an Omani company. The Sub ail Bah Wan Group and British Airports Authorities (BAA) were granted preferred bidder status to develop the two . airports: the consortium has taken a 75 per cent shareholding in the privatized company. The Government-run General Telecommunications Organization (GTO) was converted into Joint Stock Company, which was renamed as the Oman Telecom Company (OMANTEL). This was the first stage of the Omani Government drive to privatisation of State-run monopolies. The Government shares of OMANTEL was retained up to

51 percent, with 40 percent shares going to the strategic partners of local and international investors. The remaining 9 percent shares were earmarked for individual shareholders. 101 OMANTEL was responsible for upgrading and improving telecommunication service in the Sultanate. OMANTEL offered a standard range of services including fixed and mobile telephony, Internet access, leased circuits for television broadcasting, and very small operate terminal (VSAT) technology. The company's network covers 80 per cent of the population, while 80 percent of urban households have access to telephone services. There were 2,00,000 fixed line subscribers, which equates to a fixed-line penetration of 9.8 percent. This was set to increase to 14 percent under Government's sixth five-year plan.

The following table shows Oman telecom sector performance.

Table 4.21: Oman Telecom Sector Performance, 2001

Country	Main Telephone Lines ('000)	Main Telephone Lines Per 100 Inhabitants	Cellular Mobile Subscribers ('000)	Cellular Mobile Subscribers Per 100 Inhabitants	Total Number of Internet Users ('000)	Users Per 10,000 Inhabitants	Estimated Number of PCs Per 100 Inhabitants
Oman	235.3	9.0	324.5	12.4	120.0	457.5	0.3

Source: MEED, (London: UK), 10 May 2002.

Global System for Mobile (GSM), which was considered the most-attractive aspect of the business, has experienced the most dramatic growth since they were first introduced in 1996. There were more than 3,00,000 GSM subscribers in the Sultanate. Demand for the Internet was also strong. Since the service was launched in 1997 OMANTEL has a subscriber base of more than 40,000 customers and about 50 corporate leased line users, as well as provided service to more than 60 Internet cafes. Over the next five years OMANTEL is planning to invest RO 252 million with private sector investments in introducing new technology into the network. Plans include the introduction of general packet radio services (GPRS); Third generation (3G) wireless local loop (WLL); E-services: asynchronous transfer mode (ATM) system; voice over Internet protocol (VOIP); and asymmetric digital subscribers lines (AD3L). The privatisation process has changed the network system and introduced competition m telecommunications. The consumer has got benefit and reduced the telecom charges from this privatisation programed. In the coming years OMANTEL will attract number of foreign investors into this sector. Oman was also aware of the need to attract foreign investments and infrastructure projects to boost non-oil growth. The Government wants to ensure that benefits such as creation of job, growth in the local services sector and infrastructure development, which were felt throughout the Sultanate. The Government's top priority was to improve efficiency and to pass benefits on to the consumer. In Oman privatisation was not looked in an ideological way but in a pragmatic way. 103 Industrial privatisation in Oman was promoted in three major industrial projects; in the field of fertilizers, petrochemicals and aluminium, which were to be implemented by the private sector.

• In the case of fertilizer, there has been a joint venture between State investments: Oman Oil Company (OOC) and two Indian Companies. The US $ 1,100 million project was targeted to produce 1.4 million tons a year (t/y) of Urea and 3,00,000 t/y of ammonia.

This was the off-take agreement, which was envisaged with Indian Companies, Ashtray Chemicals and Fertilizers, and Kristi Bahrain Co-operative, which will buy all the Urea.

• In case of petrochemicals, there have been plans to build a US$ 1,300 million UK's BP Chemicals and OOC for developing Polyolefin Complex. The plant was expected to produce 4,50,000 t/y polyethylene and ethylene. In Aluminum Sector it is proposed to build a US $ 3,000 million aluminium smelter to be developed by Charles Enterprises and China National Non-Ferrous Metals Industry Corporation. Original plans envisaged the smelter built near the petrochemicals plant at Soar. The plant divided the gas into methane-to be used as energy for the smelter and ethane, the raw materials required for the petrochemicals plant which give the project the degree of interdependence.

Oman's Vision of 2020 has provided major share of private sector investment in non-oil sector. The following Oman Vision Text will show private sector role in the country. In June 1995, the vision for Omni 's Economy Conference (Oman 2020) was convened. The conference paved the way for the formulation of the fifth five-year plan as well as for reviewing and approving the vision for the Oman's economy for the next 25 years.

Objectives:

- Preserving the achievements of the past 25 years.
- Development of human resources and upgrading Omnis skills and competence needed for generating and managing technological change.
- Creating stable macro-economic framework encouraging the establishment of an effective competitive private sector.
- Providing appropriate conditions for the realization of economic diversification.

The new Vision entailed calls for privatisation as the driving force of the Omani economy, diversification and the development and training of Omani human resources by which Oman is able to compete in the global economy.

Table 4.22: Projections for the Vision for Oman's Economy 2020

Main Economic Indicators as a% of GDP (Base year 1988=100)

Item	1995	2000	2020
Total Government Revenue'	38.8	34.6	16
Total Government Expenditure	48.8	34.6	14
Budget Balance	10.0-	0	2
Total Final Consumption	78.8	72.4	68
Domestic Saving	21.2	27.6	32
Total Investment	14.5	16.9	34
- Public Investment	10.1	8.3	3
- Private Investment	4.4	8.6	31
Total Imports	34.5	29.9	20
Total Exports	41.1	40.5	23
- Non-oil Exports	9.4	14.4	13
- Oil Exports	31.7	26.1	10
Current Account (Balance)	7.2-	8.0-	4
Public External Debt	20.9	16.3	9
State General Reserve Fund Balance	17.4	29	24
Annual Average Growth Rate (%)			
Item	1995-91	2000-96	2020
Gross Domestic Product	5.8	5.1	7.4
Non-oil GDP	6.8	5.7	8.8
GDP Per Capita	0.02	1	3.8

Source: Oman in Focus 2003 (New Delhi: Embassy of the Sultanate of Oman), November 2003.

Foreign Capital Investment Law was formulated in 1994. Foreign investment was permitted in Oman companies with capital of less than 1 ,50,000, where the foreign shares do not exceed 49 per cent of this capital. However, foreign investment of up to 65 t per cent was permitted by the Ministry of Commerce and Industry on the recommendation of the Committee for foreign capital investment. 106 Foreign Investment Schemes enjoy five-ten year tax holidays and customs duty concessions. In case of incentives provided to the private companies, the Government has given more incentives to those who are investing in Oman.

The main incentives are the following:

Provision of soft loans with low interest rates, exemption of customs duties on import of plant and equipment, relief from customs duty on raw materials for up to I 0 years, no personal income tax and corporate tax holiday for up to 10 years. Performance The power and water sector privatisation programed already achieved its first objective of installing new capacity to meet rising demand over the medium term. It is projected that by the 2003 installed generating capacity would be expected to have risen to an estimated 3,175 MW with commissioning of the 285 MW AL-Kamal, IPP, Barak IWPP with production of 427 MW, and 40 million gallon a-day (g\d), and the 200 MW Shalala, IPP. It is estimated that this would be more than sufficient to cover peak demand. According to the Ministry of Electricity and Water (MEW), it would reach 2,531 MW in 2009 up from 986 MW in 2000. Oman was the first Gulf country to initiate an infrastructure privatisation programed. The Government is hoping to raise the national savings rate by relying on the private sector and improving the quality of services to consumers. The Royal Decree of June 1996 set out basic principles for greater reliance on the private sector including power industry, for which the Government is moving ahead with full occasioning. The most notable offering to the private sector was the Shalala covering generation, transmission, and distribution of a new 200 MW plant. Oman also has the distinction of setting up of the first private power generating plant in the Gulf. The AL..,Mahan plant, set up in 1994, was selling electricity to the national grid owned by the public sector and managed by the Ministry of Electricity and Water under a 20-year power purchasing Agreement (PPA). 109 The AL-Mahwah project demonstrated the attractiveness of the Gulf to private sector operations, and the

Government was able to get a 'reasonable' price. However, the Government now has to pay higher explicit

production subsidies to AL-Mahwah than those required for public sector operators, and has some concern over the apparently, high cost of private capital. Oman's ambition plans for See International Airport was driven by rapid passenger expansion, which increased traffic at See. A boom in GCC visitors followed the relaxation of Visa restrictions. The Civil Aviation has derived a two-stage expansion programed. The first stage has increased the capacity to handle 6 million passengers a year 2004. The second stage, to be completed by 20 1 0, envisages a full capacity of I 0 million passengers.

The GCC region has some of the most competitive airports in the world and private sector needed a good product to compete. The Oman's ability to attract significant GCC tourism during the summer months was another factor bed airport expansion. The telecommunication sector privatisation performance was very well operating in the country. In July 1999 the Government announced the establishment of the OMANTEL, which replaced the General Telecommunications Organization (GTO), which was a first step towards privatisation. Oman was lagged behind the other Gulf countries in telecommunications development; in 1999 9.2-fixed telephone lines per I 00 inhabitants, (Total of2,200,00 in use) and only 1.6 public telephones per 1,000 inhabitants. 111 Mobile phones were introduced into Oman in 1985 and at the end of April 1996; there were 8,352 subscribers with a network capacity of 9,500 lines. At the end of 1996 OMANTEL introduced a new GSM to the Sultanate. The new system covered the wider areas and subscribers would continue to use existing systems. GSM has provided several advantages such as, lighter mobile handsets, lower price equipment, and high quality performance. In addition GSM will enable to subscribe those who is in abroad to use their own home equipment and settle the bills in their home telephone administration, 112 provided that a roaming agreement exists between the two countries. It has reduced the tariff rates for the new system; Oman had an estimated 20,000 to 30,000 Internet users. Paging was introduced in 1991 with an initial capacity of l 0,000 subscribers, at the same time the sale of pagers was privatized leading to a variety of model available in the market. By the end of 1996 the total number of total active pagers received were 58,213. After privatisation of OMANTEL, international call charges were reduced drastically. The Directives of His Majesty of the Sultan, OMANTEL announced a reduction in off peak charges for international calls to some countries by 15-40 per cent. It has cut of its international tariffs for second time. The international service offered by OMANTEL plan;::s prone;~net role in the economic life of the country; and a major part of OMANTEL revenue was earned from this traffic. It was estimated that Oman would need about one million telephone lines by the year 2020, which will require massive private sector investment.

Privatisation process has provided quality of services to the consumers and thereby greater efficiency was achieved. In the coming years private sector participation will play very important role in telecommunication sector. Industrial privatisation performance in Oman has succeeded tremendously. Industrial development's main aim was to develop a non-oil sector and to diversify the economy into energy-based industries: petrochemicals, and fertilizers and aluminium smelting, which are export oriented. 113 Private sector involvement in these industries was succeeded. In 1992 Sultan Caboose announced "year of industry", where the Government adopted a 15-year industrial strategy, which included a liberalization of credit provision, regulations to simplify administrative procedures for business executives and development of the infrastructure. Industrial privatisation has provided greater success in Oman. As part of economic diversification programed industrial sector got very important role in private sector involvement, and provided greater competition in the Gulf region to develop as an international hub. Implementing Difficulties in Privatisation Programmed Oman faced some implementing difficulties; special attention needs to be paid to the recruitment and remuneration of staff responsible for drawing up and implementing a country's privatisation programed. Most of the Oman nationals are unskilled workers; Oman Human Resource Development was not developed in an expected level. Despite the enormous progress of the past two decades about 41 per cent of adult Oman's remain illiterate and as noted the quality of basic education still leaves much to be desired. 115 Oman currently Jacks adequate number of Oman business managers, accountants, engineers, and technical and computer specialists. The private companies need these things. It will take time and strong effort, though not necessarily more financial resources are required, through which the efficiency of the educational sector can be improved to overcome this constraint.

The second problem for the implementing difficulty was the "Romanization policy" passed by the Oman Government. Romanization means two different things:

(i) fostering the participation of Omanis in higher-level jobs in private sector, and

(ii) increase in the proportion of Oman nationals in the overall economy. The term "Romanization" refers in part to process by which Government is attempting to secure increased and higher-level participation by Omanis in the economic life and development of the country. Romanization programed initiatives set out in the fourth plan represented comprehensive manpower development and planning programed. The Romanization itself involves institutional reforms to improve the education and training of Omanis (including permitting the establishment of private vocational treasury institutes and centers). The plan allocated RO 10 million to implement a Ministry of Civil Service Programmed for Romanization in the private sector.

Specific features ofOmanization

- Limiting expatriate inflows into cash sector to the numbers projected in the· plan.

- Womanizing personnel departments in private sector companies in order to establish 'the appropriate climate' for the placement of Omanis.

- Providing compensation to private sector to compensate them for training Omanis to replace expatriates or to fill new positions.

- Government grants, loans and support to private companies to their adherence to Romanization requirement and objectives.

- Initiating an extension of the pension scheme to the private sector in order to increase its attractiveness vies-a-vies the public sector, where such a scheme is already in effect.

The Ministry has identified to implement Romanization process m some sectors as follows:

Transport, Storage and Communication 60%, Fuel Filling Station 50%, Finance, Insurance and Real Estate 45%, Industry 30%, Restaurants and Hotels 30 %, Whole Sale and Retail Trade 20% and Contracting Sector 15%. According to 2000 Employment figures from the manpower and employment register shows the nationals working in Civil Service and Private Sector in

Oman. In private companies national workers are low comparing to expatriate workers. See the national workers in both the services.

Workers in Civil Services-2000	Workers in Private Services-2000
Oman is 63,934	Oman is 55,671
Expatriates 20,728	Expatriates 4,94,699

This policy adversely affected the private companies; they are not interested to recruit nationals instead of expatriate workers. Most of the Oman workers are unskilled and demanding high salaries with short duration work hours. Romanization policy raises the question of efficiency and it will reduce the international competitiveness of private sector firms, which would conflict the Government's objective of strengthening the private sector including its ability to compete internationally. It would distort and reduce the efficiency of the labor market even if Romanization in the private sector was achieved and maintained entirely through the provision of incentives, without raising costs or reducing efficiency the process would still involve increased public spending. The third problem was that "Corporate Taxation" was another area of contention, with the current regime discriminating against companies with foreign shareholders. Taxation was high and created by 'llncertainty. The tax law was extremely complicated, and there has to be reform. 120 Oman has relatively limited oil resources to bring about rapid social development and economic diversification. Liquefied Natural Gas (LNG) and Shalala container port were cited as major advances in diversification process, while the growth of private sector involvement in the electricity industry was cited as evidence of Government's commitment to economic reforms. Oman needs to create employment opportunities for a rapidly growing work force. By the development of industries, Oman has greater advantage, such as gas-based industries and tourism. Creation of business friendly environment to encourage local and foreign investors will help develop greater private sector involvement in the country.

CHAPTER – V
CONCLUSION

CHAPTER 5

5.1 CONCLUSION

The State has been central in the development regime of the developing countries. Historical legacy and the political imperatives made the State to be a key player in the economy of these countries. However, for various reasons they are not the subjects of the study here. The State led development regime if not failed at least perceived to have failed to perform. The so-called 'failed State regime' obviously needs to be changed. The redressal of State failure is being sought by bringing market into the central. Privatisation as one of the components of market led economic regime has got importance in the 1990s. In case of the GCC countries too, the State has been a dominant economic player. The rentier nature of economy further added to the centralized character of the State even at the inadequacy of the private sector. Privatisation theory argues that its nary objective is to promote econom1c efficiency leading to optimal allocation of resources, and mobilize new investments to reduce the financial burden on the State. Broadly speaking privatisation programmers in the developing countries have been initiated under two kinds of pressures: Internal pressure, and external pressure. Internally the State has been facing the pressure of fiscal crunch, and balance of payments crisis. After 1980, most of the developing countries have been undergoing financial difficulties in terms of financing government expenditures. Increasing deficit budgets were common in these countries. The cause when these countries went to international financing. Bleak development aid situation and export markets have contributed to financial crisis, and aggravated the deficits in the balance of payments. Many developing economies were forced to either reduce their domestic expenditure part or to search for new source of revenue. Since 1990 onwards the GCC countries started facing major structural challenges managing their economies.

The biggest challenge faced by the GCC countries was the declining oil revenues; and these countries' oil export contributes around eighty percent. Any variations of oil price in international markets will have a serious effect on these countries. Other challenges are; high population growth rate around 3 to 4 percent annually maintained by these States, increasing defense expenditure, budget deficits and providing higher subsidies on electricity, water, fuel and health care services. These challenges have obviously affected economic growth of the GCC countries. To overcome the structural dimensions of the crisis the GCC economies were compelled to think of promoting and influencing privatisation programed particularly for the promotion of the non-oil sector. GCC economies are rentier economies where the Government's revenue consisting largely on external rent, i.e., oil revenues. The rent constitutes major part of economic activity in these States. Declining oil revenues in the international market is a major concern for these countries. Oil constitutes primary sector of the economy as more than eighty percent of the revenues comes from this sector. During the oil boom period, i.e., 1973-1983, the GCC countries have received massive oil revenues, and invested in various developmental projects. The oil boom period started declining in the 1984 onwards due to lower oil prices in the market.

This lower oil prices led GCC States economies to face problems in the 1990s; most of the developmental projects were delayed and started showing higher deficit budgets. The rentier nature of the economy not only made these countries dependent on oil revenues but also depressed the growth of the non-oil, sector." Thus making the oil rent the only source of State revenue. Privatisation thus has been initiated to address these problems. Other factors also contributed for the economic slowdown, like population growth. The annual population growth was 3 to 4 percent, which is the second highest growth rate in the world after the Sub-Saharan African countries. Another factor concern for the economy is that the GCC countries are providing highest number of subsidies to maintain welfare State . Consequently, high volume of subsidies went to the financing of water, electricity, and health care services. The fiscal burden of the enormous size of subsidies further added to the fiscal crisis. Privatisation thus has been initiated to address these problems. Saudi Arabia started privatisation process in the sixth five-year plan period (1996-2000). The Kingdom is the largest oil producing country in the GCC region; around seventy percent of the Government revenue comes from the oil sector. In the last two decades, i.e., 1980s and 1990s Saudi Arabian economy started facing major challenges to overcome these problems. In August 1999, the Kingdom Crown Prince Abdullah set up a Supreme Economic Council (SEC). Prince Abdullah is the chairman of this Council. The main function of this Council is to implement and monitor economic reforms under the privatisation programed. The Kingdom identified some of the public utility sectors for privatisation; they are, power and water, telecommunications, airport, port, industrial sector. Kuwait privatisation programed started in the 1990 onwards.

This program is conceived as a part of the structural adjustment of the public sector of the economy. It involved the redefining the role of disengaging it from these activities, which are best done by the private sector with overall objective of achieving economic efficiency. Some of the public utility sectors have been identified for the privatization like, power and water, telecommunication, airport, port and construction. In the United Arab Emirates, privatisation process has been given top priority in the Dubai 's Strategic Development Plan 1990-2030. Under this plan special importance of privatisation is emphasized. The Government considered privatising the non-oil sector as a policy option to the efficiency of services. The UAE has passed a separate Privatisation Law Committee for Water and Electricity in 1997. Under this Committee the main objective was to develop and implement privatisation process in the power and water sector. This sector has been subdivided into three core' activities, production, transmission, and distribution. Bahrain, Qatar, and Oman are not rich with oil reserves though Qatar, and Oman have vast reserves of natural gas. Bahrain is the smallest country among the GCC countries; it has a limited oil resources and almost run out of its oil production. But oil has been the mainstay of the economy accounting for almost seventy percent of the total exports. Bahrain economy faces the crisis most acutely. The Government has announced economic reform policies; under these policies privatisation got important role in the non-oil sector like, power and water, telecommunications, airport and industry. The Government is committed to an active policy of privatisation, which will mobilize private sector savings. The total volume of companies' privatisation reached US $ 2 billion.

Privatisation programed invited foreign investors in the power sector, and it was committed to take a sizeable portion of the equity in the range of US $ f SO million to US$ 200 million. Qatar is the wealthiest nation among the GCC countries. Its per capita income around US $ 30,000. Though oil has been the mainstay of the economic activities, it is moving to produce natural gas on which the future of the economy is going to be derived. Qatar implemented a clear-cut policy of economic reforms in the 1995 onwards. At that time a change of leadership was taken place. A new leader of Emir Hamid initiated highly publicized programs of political and economic reforms involving liberalization and steps towards democratization. These programmers are one of the mam central planks of Emir Hamid rule and he has aggressively used these reforms as a means by which to assert Qatar's autonomy and distinctiveness from GCC neighbors. The new economic reform has evolved around three important themes: greater participation of the private sector, freedom of expression, and democratization process. These policies have been introduced by Emir Hamid who has created a political climate towards economic reforms in the country. Qatar has a great advantage to invite foreign investors to invest here. The country is located in the hub of being a peninsula, which gives it longer shorelines and more maritime access routes to the world. This makes the country more competitive as a center of international investment. Oman is also not very rich with oil reserves whereas it has a vast natural gas reserves but the economy still depends on oil as the maker of economic activities in the State. It accounts for seventy-eight percent of the total exports and thirty-seven percent of GOP.

In 1993 Oman has introduced privatisation program in the non-oil sector. Oman took leading role in implementing economic reforms and measures to encourage greater role of the private sector. Oman is ahead of other GCC countries in implementing privatisation programed. The main focus of this process to reduce national economy dependence on public spending, to provide more competitive environment and improve efficiency. The Oman Government emphasised the privatisation process. Its commitment was declared as "1998 was the year of the private sector participation", which has played leading role in Oman's efforts to develop new strategy. The Oman Government has included privatisation as a key focus in Oman's Vision-2020. This vision plan included following policies; preserving the achievements of the past 25 years, development of human resources and upgrading Omnis' skills and competence needed for generating and managing technological change, creating stable-macro economic framework, encouraging the establishment of an effective, and competitive private sector, and providing appropriate conditions for the realization of economic diversification. The new vision entailed calls for the privatisation as the driving force of the Oman; economy. Diversification, development, and training of Omani human resources made Oman able to compete in the global economy. Privatisation experiences in the GCC countries suggest that each country has followed different methods and strategies in dealing with the private sector. Privatisation experience in Saudi Arabia shows that it performed well in the telecommunication sector. The creation of Saudi Telecommunication Company (STC) has created mobile revolution in the Gulf region. The telephone lines in the 1991 were 12,34,000, which reached 38,48,274 in 200land GSM were increased 1,375.9. The telecom coverage area has reached ninety-eight percent throughout the

Kingdom, and estimated investment was between US $ 25,000 to 35,000 million during 1998-2008.

Kuwait privatisation performed well in the power and water sector. Before privatisation the country's total power production was 5,230 MW; when private sector was invited into this sector the production capacity has increased to 7,630 M W. The two main power sectors have invited privatisation process, one at AL- Sour South of 240 MW station, and another at Cuiaba of I 00 MW station. The UAE privatisation performance went well in airport privatisation; it has been one of the fastest growing sectors among the GCC countries. The private sector participation in the Dubai's International Airport upgraded the standard to top class in the world level. Its passenger services satisfaction puts it in the first position both m leisure and business travelers. Dubai airport expansion programed include 30 million passengers a year by 20 I 0; this expansion plan is the biggest in the region. Bahrain privatisation performance reached advanced stage in the telecommunication sector. Privatisation process in the Bahrain Telecommunication Company (Bate Leo) hosts one of the most profitable and successful implementation of privatisation programed in the Gulf region. Its net profits increased to million Dinars (US $ 33.9 million) in 2001.

The mobile call charges were reduced by up to 26 percent and monthly rental charges were also reduced by up to 40 per cent. Mobile customers have been increased tenfold of around 3,00,000 in 2002 and the Bahrain's people have 46 percent of mobile phones. Qatar privatisation performance succeeded well in the telecommunication sector. The Government has created Corporation, Qatar Telecommunications (Q-Tel), which achieved record level revenues that announced to QR I ,205 million, an increase of 12 percent. Q-Tel has ensured that is the one of the most advanced telecommunication sectors in the Gulf region. Its services are comparable to those found in developed countries. The Q-Tel network system is hundred percent digitalized; its customer service centers, and new billing systems have been improved. This enabled to maintain distinguished position as a progressive company both in the country and the global level. Oman privatisation programed performed well in the power and water sector. Oman is the first GCC country to introduce privatisation programed in the power sector. The AL- Mahan power plant is selling electricity to the national grid owned by the public sector and managed by the Ministry of Electricity and Water under 20 years power purchasing agreement. Privatisation process invited other public utility sectors: they are; airport, port, construction, and telecommunication. Privatisation involvement in the GCC States has provided some of the concerned issues, which have started reducing the deficit budgets. The total expenditure for the GCC countries was projected to increase from US $ 89 billion in the 1999 to US $ 95 billion in 2000. The total revenues were expected to increase from US $ 73 billion to US$ 78 billion. In the year 2000 the GCC countries have achieved to reducing deficit budget, and they presented surplus budgets. Privatisation in the GCC States started reducing the loss making State-owned enterprises in order to regain fiscal control and macroeconomic stability and improving efficiency of these enterprises. Privatisation is expected to reduce public debt service with the aid of the financial "resources mobilized through sales. Public debt services in some of the GCC countries have been increased like, in Kuwait, up to US$ 12.4 billion, in Qatar up to US$ 6.6 billion, and in Bahrain up to US $ 3 billion in 2001. Private sector participation would reduce debt services to allow more capital to be made available through investments. Privatisation is likely encouraging flow of foreign investment, particularly Ill those areas where foreign technology or expertise is an essential ingredient. Privatisation has a lot of advantage to increase employment opportunities optimizing the use of national work force, and ensuring the equitable increase of individual come. Developing the nation's human resources is the basic elements of national development; already GCC States were facing unemployment problem so it would be better to utilize private sector to absorb national work force in the private companies.

Privatisation process will increase Government revenues from returns on participation in activities to be transferred to the private sector, and public sector to be privatized for open competition. The Government receive sustainable income from privatized project whenever possible. Despite the implementation of economic reforms in the GCC States, the role of the private sector is still facing some problems. First of all, political will is very much limited. Second concern is that providing employment opportunities to the nationals is a serious concern of these countries. The nationals working in the private companies are very less; the non-nationals occupy majority of the work force. In the GCC countries existing education system is not adequate to provide human resources; the nationals lacks technological skills, and education pattern is more concerned about Islamic Studies and Social Science subjects. Another hurdle is that the private companies are not interested to recruit nationals; they say nationals are demanding higher salaries and less work hours, and recruitment of nationals in the private sector should be disastrous for us. But the GCC Governments have taken major steps to recruit nationals compulsorily in the private companies; they passed separate Bill, "Localization Bill." Despite passing these laws recruitment process is not succeeded. The non-nationals occupy still majority private sector jobs. The GCC countries have to give more importance to recruit nationals in the private companies.

The second obstacle for the private sector development is that the GCC countries stock markets have not developed as much, comparatively as other developing countries do have. Stock markets play important role for privatisation success. It generates more funds through distributing shares to the citizens. The significant contribution is that it mobilizes savings and attracts foreign investments in order to provide additional financial resources to meet national growing demands. In the GCC countries stock markets can play major role in coming years. The role of the ruling families has been important in the privatisation process of the Gulf countries. These ruling families have significant contribution in the private sector. Majority of the shares in the private companies owned by these families; they are lobbying to get investment in the private sector. The common people do not have any decision-making role in the privatisation process; they have a small percentage of shares in the Sock Exchange Markets. Thus, it is a fact that the ruling families have already invested in the non-oil sector. In Saudi Arabia Bin Laden Group is having major shares in the construction sector. Kuwait ruling AL-Sabah families have a major role in infrastructure sector. In the UAE the ruling AL-Nahant and Actium relatives have major role in public utility sector. Bahrain King relatives have got major share in shipping industry. Qatar ruling AL-Thane family members invested in infrastructure sector. Oman ruling Bin Said families have major role in power and water sector. Privatisation experience in the GCC countries shows that the private sector role is limited. One decade of experience, i.e., 1990 onwards, speaks that the privatisation process in the GCC countries is confined only in the non-oil sector. Moreover, private sector activities in the GCC countries are concentrated only in few economic sectors such as water and power, telecommunications, construction, industry, roads, and airports. The share of these sectors in total gross domestic product was less than the share of the oil sector. This has limited the participation of the private sector in the economy in general. The opening up of the oil sector is expected to boost the participation of the private sector. It seems that the private sector is likely to be open for the oil sector, which is expected in coming years. The role of the private sector in the GCC region plays a dominating role in the nonoil economy. Its performance has already achieved tremendous success in sectors like, the telecommunication sector; its efficiency has been improved and greater competition has been developed in all the GCC countries. Power and water sector are also running commercially successful; its production capacity has been increased, and it reduced summer peak hour demand. Airport privatisation competition has increased its passenger services comparable to developed world. The GCC countries have committed to implement privatisation programed successfully under the new economic reform policies. The role of the private sector in the economy is increasing year by year. In the coming years privatisation process might be invited for the oil sector.

Privatisation m the rentier economies of the Gulf has been so far a mixed result. Though the plans have been adequately conceived, to some extent they are implemented but there are issues structural in nature to be overcome to optimize the gains of privatisation. The study underlines that the political consolidation, which oil rent provided is now sought by the ruling families by taking over the command of the private sectors. This could bring new deviations and distc,rtions affecting the very rationale of the privatisation process. Privatisation does not mean reflecting of public monopolies by private monopolies. It ought to generate a competitive ambiance so that the resources could be used be optimally utilized. On this score the GCC experience has yet to provide evidence. However in defense of the GCC it could be analyzed that the process is still in transition.

CHAPTER – VI
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CHAPTER 6

6.1 BIBLIOGRAPHY

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