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HIGH-LEVEL ADVISORY SERVICES FOR FREE TRADE ZONE IN QATAR

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Technical report: Pre-feasibility study on the Development of a Free Zone in Qatar

Prepared for the Government of the State of Qatar
by the United Nations Industrial Development Organization

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TABLE OF CONTENTS

TABLE OF CONTENTS - Contd.

CHAPTER 1

INTRODUCTION

1.1 Background and Terms of Reference

Oil is the driving force of the Qatari economy, accounting for over 90% of exports and 80% of government revenues. Much of the development that has taken place to date is concentrated on downstream oil activities. The development of a capital intensive industry based mainly on hydrocarbon inputs over the last 20 years has given Qatar one of the most advanced heavy industry sectors in the Gulf region.

Over time the government wants to reduce the state's dependence on oil and heavy industry by developing light and medium industry sectors. In particular, the government is keen to encourage private investors, both domestic and foreign into small and medium industries. To facilitate private investment in industry, the government encouraged the establishment of Qatar Industrial Manufacturing Company, which has about 8,000 private shareholders. The government has a 20% shareholding in this company. In the last 3 years the company has invested in 7 enterprises. Further projects are under consideration.

As part of its efforts to stimulate private investment

and diversify the economy, the government through the Ministry of Industry & Energy is working with UNIDO on a number of studies and projects in an industrial planning and development programme. Projects include studies on the development of a small and medium industry, investment promotion seminars in Europe and the Far East, industrial estate development including the treatment, control and disposal of industrial waste and a free zone pre-feasibility study.

The purpose of this study is to provide the government of Qatar with adequate techno-economic information to enable them to take a decision on proceeding with a feasibility study for free zone development in Qatar.

The main elements of the study include (i) a review and evaluation of the range of support services available to support free zone development, (ii) an analysis of trade flows in the Gulf region, (iii) an overview of free zones and related developments in neighbouring states and in the GCC in particular, (iv) an examination of GCC rules and regulations in relation to free zone development, (v) a list of the requirements for successful free zone development, (vi) a review of relevant laws and procedures, (vii) an assessment of the infrastructure and transport facilities and (viii) suggestions on possible sources of investment.

The terms of reference are outlined in detail in Appendix 2.

1.2 Summary

Chapter 2

(i) The free zone is an evolving concept, changing in practices as adopted by many countries at different stages in the development process (e.g. France, the United Kingdom, North Korea and African countries in the 1980's).

(ii) It has been used to promote a range of export oriented activity including trading, warehousing, distribution, light and medium industry manufacturing and international service activities. There are physical zones ranging in size from a free acres (transit zones at ports) to whole cities (China). There are also administrative or EPZ status zones.

(iii) An evolving, changing concept is impossible to define in precise terms. The key characteristics of a free zone are freedom to establish a business, freedom of ownership, freedom to import and export materials without taxes or duties or other restrictions (except for reasons of morality and security) and freedom from bureaucracy.

(iv) Most countries around the world have or are planning to use the free zone formula to develop

or promote export oriented manufacturing and trading activity.

(v) A 1983 United Kingdom government working party considered the free zone to have "special appeal and marketability" and recommended a free zone programme for the United Kingdom. The free zone, the working party concluded, would "not provide any tariff advantages". Nevertheless, the working party identified a number of non tariff advantages including simplification of customs procedures (especially advantageous for smaller firms), physical security and improved cash flows.

(vi) As one of the main reasons for a free zone is the creation of a bureaucracy free environment, this should be reflected in the free zone law.

(vii) Another important free zone function is an uninterrupted flow of goods into and out of the zone. The customs administration and port (and airport) authorities can be a major factor in assisting or hindering such an uninterrupted flow of goods.

(viii) The private sector has an important and increasing role to play in free zone development. The private sector is usually represented on the Board of the EPZ authority. Increasingly the private sector is responsible for the development and management of zones, as

well as investment in zone projects.

(ix) Conditions for successful free zone development include political and economic stability, good transport and infrastructure, an efficient organisation and support services, and an economic policy favouring the private sector, foreign investment and export development.

(x) Attracting export oriented foreign investment is difficult. This type of investor is strongly influenced by promotion efforts and incentive packages.

(xi) For implementing promotion programmes the most effective organisation structure is a parastatal format funded largely by the government.

(xii) Incentives can make a difference between two locations when "all other things are equal". Incentives will not compensate for weaknesses or deficiences in the infrastructure or investment climate.

(xiii) A well planned free zone located on good building land close to infrastructure and support services and built in phases based on conservative demand projections should succeed commercially and in cost benefit terms, provided there are no largescale subsidies involved or external social costs associated with the project.

Chapter 3 FREE ZONE DEVELOPMENT IN THE GULF REGION

(i) Market conditions in the Gulf and major economies surrounding the Gulf are improving e.g. India. Pakistan. The market size of the major surrounding economies is about 630 billion $. which is nearly 3.5 times the GCC market.

(ii) Membership of GATT and moves to complete a customs union may bring about changes in the market conditions within the GCC. It is possible that the nationality requirement in the Rules of Origin for intra GCC trade (51% Gulf ownership) may be eliminated if GATT adopts common rules of origin.

(iii) There are many variations in the tariff levels among GCC member states.

(iv) Within a GCC framework traders and distributors of imported products will always benefit from a free zone situation.

(v) Offshore manufacturers i.e. investors using imported materials to make goods for sale outside the GCC, will in most circumstances benefit from free zone facilities.

(vi) Firms selling mostly in the GCC market may or may not

opt for a free zone location, depending on the circumstances.

(vii) Trading and manufacturing (mostly assembly) are the major activities in the free zones at Jebel Ali and Fujairah.

Chapter 4 FREE ZONE DEVELOPMENT IN QATAR

(i) All of the Gulf economies (with the possible exception of Saudi Arabia) want to attract export oriented investment projects. Bahrain and Dubai have gone further than any other GCC state in creating the conditions necessary to attract mobile foreign export investment.

(ii) Intra GCC trade at present is a very small percentage of total GCC trade. This trade (intra GCC trade) is dominated by oil and heavy industry products.

(iii) Qatari non oil exports are dominated (90%) by chemicals and steel. Steel is the major (65% of total) Qatar export to GCC countries.

(iv) The manufacturing sector in Qatar is in GCC terms relatively well developed. Steel and chemicals are the dominant sectors. Foreign investment in light and medium industry is limited. Most of the small and

medium scale interprises are very smallscale in size (less than 20 employees) and do not export. Apart from garment sector manufacturing, there has been very little growth in manufacturing employment in the 7 year period 1984 to 1991.

(v) The current 3 year plan published by the Supreme Planning Council recognises the need to diversify the revenue sources and productive base of the economy.

(vi) **Overall responsibility for industrial development rests with the Ministry of Energy and Industry. The Ministry** through the Dept. of Industrial Development has taken a number of initiatives to promote industrial development. However the lack of clear guidelines creates uncertainty in the minds of many foreign investors.

(vii) Law No. 25 of 1990 is restrictive in terms of foreign ownership. A more positive law permitting 100% foreign ownership in free zones at least is necessary to promote successful free zone development. Law No. 7/76 deals with free zones. It needs to be modernized and updated in the light of current thinking on free zone development.

(viii) The physical and commercial support facilities for free zone development in Qatar are generally good. The cost of adequacy of sea transport needs to be investigated.

Improvements in third level education and vocational training facilities would help. There may be a need for more medium and longterm financing as well as risk capital. However, this needs to be proven.

Conclusions

(i) A free trade zone to accommodate warehousing, storage, packaging and transhipment can be successfully developed in Qatar.

(ii) A low skilled labour intensive manufacturing free zone could probably be developed successfully. However, the socio economic benefits of such a development need to be carefully weighed.

(iii) A medium/high technology zone can only be developed in the context of a series of initiatives covering investment promotion, project ideas, education and training and financial supports.

Recommendations

(i) The government of Qatar should proceed with a fullscale study on the development of a free trade zone and review that situation with regard to an industrial free zone after the initiatives referred to above are put in place.

CHAPTER 2

FREE ZONE DEVELOPMENT

2.1 Evolution of the Concept

Some commentators have traced free zone development back through the middle ages to the Greek and Roman period. What is clear is that free zones have developed in places and at times where international trade is expanding. In the last century major trade zones were established at Gibraltar, Aden, Singapore and Hong Kong. Towards the end of the century zones were established in many parts of Northern Europe (Copenhagen, Hamburg, Gottenburg) and the Mediterranean (Barcelona, Trieste). Zones were also established in Central Europe at major trade intersections (Vienna, Salsburg, Geneva). In all of these zones the emphasis was on trade and transhipment. They were controlled by customs, and developed and managed by the municipal or port authorities, usually under the supervision of the ministry of finance.

In the 1920s and 1930s very few zones were established, except in the United States. Here the

first of 200 import zones (about 75% of merchandise in U.S. zones is destined for the U.S. market) was established at Statten Island in 1934. In most trade zones manufacturing activity was excluded. Those zones were usually small areas (10-20 ha) adjoining a port or transport intersection.

The first manufacturing zone or export processing zone (EPZ) was established at Shannon Airport in Ireland in 1959. This was followed by Kaoshiung in Taiwan (1965), Kandla in India (1965), Masan in Korea (1971), Bataan in the Philippines (1971), La Romana in the Dominican Republic (1969). In addition the Mexican border maquiladora programme began around 1965. The programme has many free zone characteristics and the results are often included in global free zone statistics. Under the programme services of industrial banks were established along the Mexican/U.S. border where materials could be imported, mostly from the U.S. for processing and re-export to the U.S. The programme was later extended to cover all of Mexico.

With the exception of Mauritius, the first group of EPZs were fenced in industrial parks (30-200ha) with a special government sponsored zone administration or EPZ Authority (except La Romana which was privately managed) which developed and managed the zone,

promoted it, accepted investor applications, evaluated and approved (or rejected) them, issued licences and generally provided streamlined services for investors. The emphasis in the zones was on fast track customs procedures, reduced bureaucracy and deregulation. This was what might be termed the "traditional EPZ concept".

In Mauritius there was no EPZ authority or fenced in area. Investors could establish EPZ status factories anywhere on the island with the approval of the Ministry of Industry. There is no EPZ authority. The concept is promoted by a specialized promotion agency - MEDIA (the Mauritius Export Development and Investment Agency). Investors make application for EPZ status to the Minister. The application is reviewed by a committee who make a recommendation to the Minister. If the Minister accepts the recommendation, he approves the project and issues an operating licence.

Recently the Mauritian government established a special government sponsored trade zone authority to promote and develop transit trade and distribution activity at Port Louis.

Throughout the 1970s and 1980s traditional EPZs continued to be established in Sri Lanka (1978), Egypt

(1976), Jamaica, El Salvador, Senegal (1975), Liberia and many other places.

Towards the end of the 1970s the Chinese government established special economic zones at Shenzen and a number of other coastal locations in China. These special zones were large cities of over 1 million people. They were special in the sense that (i) private enterprise was permitted; (ii) there was some reduction in bureaucracy; (iii) goods could be imported and exported without duty payments; (iv) foreign investment was encouraged; and (v) some tax incentives were offered. In recent years the special economic zone concept has been extended to many parts of the country. Many restrictions on private enterprise and foreign investment have been lifted. Today the whole country can be classed as a special economic zone.

Over the last 15 years countries in many parts of the world including (i) most GCC member states, (ii) EC member states (France and UK), (iii) communist regimes (North Korea, Vietnam), (iv) former communist regimes (most countries in East Europe), and (v) most developing countries, have established or considered establishing free zones with the objective of attracting export oriented investment. Most countries have adopted the "traditional EPZ concept" with

private enterprise increasingly developing and managing zones under an EPZ authority. Private zones are most prominent in Central America. Apart from developing zones, private enterprise is gaining increased representation on the board of EPZ authorities.

The range of activity being promoted in zones is extending. There is increased emphasis on data processing, software development and other forms of international service activity. Nevertheless manufacturing still dominates. Within the manufacturing sector clothing and electronic assembly are the main activities. In some African zones there is a growing emphasis on a wider range of consumer products for the African market - or using African raw materials, e.g. jute processing, food processing furniture, pharmaceuticals, pesticides, vetinary products.

The free zone is one of a number of duty free systems which provide exporters (manufacturers and traders) with access to duty free equipment and materials. Other systems include bonded warehouses or bonded manufacturing schemes, duty free licence schemes, duty suspension schemes and duty drawback schemes. The free zone system usually involves less documentation and procedures than other schemes. The free zone

system also provides other freedoms (ownership, bureaucracy, currency and operation) which are not normally part of other duty free schemes.

If there are no actual or perceived problems with foreign ownership, foreign currency transactions, bureaucracy for the establishment of a business in a country, the relevance of a free zone programme can be debated.

2.2 Definition

A recent UNCTC publication on free zones in Eastern Europe included about 25 different terms to describe a "free zone". Defining in precise terms something which has a slightly different meaning for many people is impossible.

A free zone can be a physical concept (as with a "traditional zone", or an administrative concept as in Mauritius and Mexico. The size of the area in a physical concept can range from a few acres (most traditional EPZs are in the 50 - 200 ha range), to a whole city as in China.

The most important characteristic of a free zone is freedom. The extent of the freedom can vary from zone to zone. The most important freedoms have to do with

(i) customs and excise duties and taxes - none, (ii) ownership - no restrictions. (iii) exchange control and repatriation of profits - no restrictions except to control abuses of the system, (iv) bureaucracy - a well planned zone prevents delays or interference by government ministries or agencies. In addition to these freedoms a zone should have good infrastructure, few regulations, and transparent incentives and application procedures.

2.3 World Overview

The free zone idea is in operation today in around 100 countries throughout the world. Many countries have adopted the free zone formula in the last 5 to 10 years to encourage foreign investment and export growth.

Not all zones are successful. A recent World Bank survey concluded that about 40% (25 out of 60) zones which had been in operation for 10 years or more were "predominantly successful", another 30% (17 out of 60) were "partly successful". The remainder (18 out of 60) were clearly unsuccessful. The major reasons for the failure of zones are:

(i) Location - a location choice based on political rather than economic/commercial considerations away from infrastructure and

international services.

(ii) Bureaucracy and corruption.

(iii) Hostile investment climate.

(iv) Inadequate promotion efforts.

The major activities in free zones are electronics assembly and garment production. The reason is simple. The comparative advantages offered in most zones (low cost unskilled labour and free trade facilities) match the requirements of these industries. If a zone has a skilled workforce and support services, it is possible to attract a much wider range of industries.

Many zone projects are of domestic origin or are foreign/domestic joint ventures. In many cases the number of projects with domestic involvement exceeds 50%. Most foreign investors in free zones come from neighbouring countries or places with which the free zone country has ethnic, colonial or traditional links. The Japanese were major investors in Masan (Korea). Many American companies came to Shannon because of the Irish American connection and the name Shannon was well known in the US. Mauritius attracted Hong Kong, French and UK investors. Mauritius has a Chinese community, is a former French and British colony and is bilingual in French and English. Madagascar is attracting the overflow from Mauritius.

Fiji attracts Australian, New Zealand and Chinese (Hong Kong/Taiwan) investment. There is a Chinese community in Fiji. Kenya attracts Indian investment. The Americans are major investors in Central America and the Caribbean, as well as Asian investors seeking access to the US market.

Trade agreements also influence investment flows. EC membership helps Ireland. The LOME convention helps Mauritius. The Caribbean Basin initiative helps the Caribbean. SPARTECA (the South Pacific agreement) benefits Fiji.

2.4 Free Zones in the Development Process

Most countries today want to attract investment (both foreign and domestic) into export oriented manufacturing and service activity. If investors are to be attracted and succeed in export markets, they must be able to operate (i) in free trade conditions, (ii) without currency restrictions, (iii) without unnecessary regulatory or bureaucratic controls, (iv) with good infrastructure and support services, and (v) if foreign investment is required (and for more advanced technology projects it will be) a positive attitude towards foreign investment.

In many countries without a tradition of export

manufacturing the necessary physical, administrative and commercial infrastructure may not exist. In order to create the necessary conditions a country is faced with a choice of (i) changing laws/regulations and administrative procedures on a country wide basis - which it may be reluctant to do, or (ii) implementing the changes on a phased basis by establishing traditional or administrative free zones.

Apart from developing countries, a number of West European countries with (a) a strong established tradition of exporting, (b) no major currency control foreign ownership restrictions or (c) major bureaucratic delays, seek merit in the free zone formula. A U.K government working party in March 1993 concluded that a free port of the classic type could have "special appeal and marketability and on balance there would be merit in opening the way to the establishment of such free ports in the United Kingdom. The working party noted that there were no tariff advantages for free zone firms which are not already to U.K. firms, warehousing or processing imported goods destined for third countries or for sale in EC markets. A number of non tariff advantages were identified. They include

(a) Simplified customs procedures.

(b) Flexibility in handling quota restricted products.

(c) Cashflow benefits arising from duty exemptions.

(d) Physical security (and with it lower insurance costs) arising from customs control in a ringed fenced area.

(e) Free ports or zones are likely to attract support services for international trade e.g. exhibition centres. There is some evidence of this in Jebel Ali.

(f) Free zones have international marketing appeal.

(g) Reduced customs formalities are especially attractive for small firms who may be unaware of or unable to cope with the formalites associated with the existing schemes.

The advantages of a free zone (traditional or administrative) are:

(i) New procedures, laws and regulations can be introduced on a controlled basis quickly.

(ii) New institutions can be established if necessary to promote and develop the idea.

(iii) Administrative and other experiments can be tried on a controlled basis.

(iv) Promotional - a free zone is a well known concept worldwide. When a country announces or advertises a free zone programme, it will generate interest and expectation among the investment community.

The disadvantages of a free zone programme are:

(i) The cost of establishing a special institution (an EPZ anthority) and promoting the concept (0.5M$+) may not be justified.

(ii) The potential for conflict exists between a nationwide investment agency and an EPZ authority.

(iii) The possibility that countrywide trade and policy reforms required by IMF/World Bank will be delayed or ignored. This is a fear expressed obviously by the World Bank. It can also be argued that a successful EPZ will stimulate countryside reforms.

The role of a free zone is to create special conditions on a limited basis (physical or administrative) in which export oriented business activity can profit. If or when free trade conditions develop on a countrywide basis, the need for a free zone will cease to exist.

The free zone is especially useful for a country looking to attract export oriented foreign investment if (i) there is a major bureaucracy controlling imports, (ii) there are actual or perceived problems with foreign currency payments or foreign ownership, or (iii) a country wants to give added emphasis to its efforts to attract foreign export oriented investors.

2.5 The Legal Framework

The free zone law sets out the basis for the relationship between (i) the various elements of government, especially the customs administration and the agency or ministry responsible for zone development and management, and (ii) between the government and the private sector.

As one of the main purposes of a free zone is the creation of a bureaucracy free environment attractive to investors, this should be reflected in the free zone law.

The main elements of a free zone law include:

(i) A provision giving some government body the power to declare particular areas or buildings to be free zones. This may be the Council of Ministers, or the Minister for Finance & Industry.

(ii) The designation of a Ministry or EPZ authority with overall responsibility for free zone development. The normal practice which is to make the Ministry of Industry responsible for free zone development as it is usually viewed as an industrial development initiative.

(iii) The power to issue licences or permits to (a) private developers who want to build and

manage zones and (b) to investors who want to establish enterprises in the zone(s). The right to build free zones and establish businesses therein is a privilege which should be granted by the government to acceptable investors (i.e. bonafide exporters). This privilege is given via a licence. The power to issue licences may rest with the EPZ authority or the Minister responsible.

(iv) Power to revoke a licence if there is a serious breach of customs regulations or conditions attached to the licence.

(v) Provision for amending a licence with the consent of the licencee.

(vi) Provision for the establishment of an EPZ authority (if such an authority is considered necessary). This provision would deal with (i) the legal status of the authority, (ii) board membership, (iii) staffing, (iv) funding, (v) powers and functions of the authority.

(vii) The right (clearly stated) of investors to import and export without payment of customs or excise taxes.

(viii) Incentives.

(ix) A clause on ownership (i.e. domestic or foreign ownership permitted).

(x) Provisions on repatriations of profits,

dividends and investment.

(xi) Clause permitting foreign currency accounts (if necessary).

(xii) A clause giving the minister or government power to make regulations for the implementation of the act. Any regulations on customs procedures are normally made with the consent of the customs administration.

2.6 Custome Administration

The main purpose of a free zone is to allow an uninterrupted flow of materials into a zone for processing, warehousing, storage, packing and export. The customs administration, together with the port administration, can be a major factor in causing or eliminating delays.

With an EPZ, the task of the customs is very different from its traditional function which is preventive i.e. preventing importation without appropriate permits and documentation. In an EPZ the customs must facilitate rather than prevent. New procedures and skills are necessary, including a knowledge of accounting and stock checking. In an EPZ a lot of the control work of the customs administration is based on checking stocks and accounts.

2.7 Management and Organisation

The administrative free zone concept as operated in Mauritius and Fiji is a simple one. The Minister for Industry is responsible for issuing EPZ licences. The ministry receives applications from investors and reviews them with the assistance of a committee. The committee includes representatives from relevant government agencies and ministries. The committee advises the minister who issues a licence. The investor gets a building permit and other necessary permits from the relevant authorities and commences operations. The customs administration is responsible for "controlling" the duty free equipment and materials. The concept is promoted by the trade and investment agency - the Fiji Trade & Investment Board (FTIB) or the Mauritius Export Development and Investment Authority (MEDIA).

One problem faced by investors is the bureaucracy involved in establishing a project. There is no EPZ authority to assist investors or streamline procedures during the establishment phase.

The traditional free zone formula is a more complex organisation. A special government sponsored EPZ authority or administration is established to oversee the development of the EPZ programme. The EPZ

administration is responsible for the development, management and promotion of EPZs. Sometimes responsibility for development and management is delegated to the private sector. This trend is most pronounced in Latin America. The EPZ authority however retains responsibility for evaluating applications from potential EPZ investors and approving (or rejecting) them.

The relationship between the EPZ authority and the customs administration varies from country to country - depending on the trust which exists between the two authorities. At Shannon, where both administrations (EPZ and customs) respect each other, both work together as two independent co-operative branches or agencies of government without difficulty.

In Korea and Taiwan the EPZ administration has the responsibility to supervise the operations of all other government agencies and departments within the zone.

In Sri Lanka and the Philippines the zone administration performs the customs functions within the zone. The customs administration does not function within the zone.

2.8 Role of Public and Private Sectors

The primary role of the public sector is to

(i) Create a legal framework for EPZ development.

(ii) Licence and supervise the development of private sector zones.

(iii) Licence investors who want to establish businesses in zones.

(iv) In the absence of private sector initiatives the public sector will have to develop and manage zones.

(v) Control the circulation of duty free equipment and materials to ensure that goods are not illegally diverted on to the domestic market.

(vi) Ensure that zone investors behave as "good neighbours" and comply with relevant legislation e.g. on environment and working conditions.

The role of the private sector is to

(i) Develop and manage commercially viable zones.

(ii) Invest in and develop viable business projects.

The private sector can be represented on the board of the EPZ authority or advisory committee assisting the minister responsible for EPZ development.

2.9 Conditions for Successful Free Zone Development

The most important considerations are:

(i) Political and economic stability and a consistent economic policy favouring private enterprise, foreign investment, export development and a competitive exchange rate.

(ii) Good transport and communications facilities.

(iii) Reliable infrastructure.

(iv) Market access: Preferential access to an important market is a significant advantage e.g. Fiji vis-a-vis Australia and New Zealand.

(v) Support services: These include a good banking system and an efficient freight forwarding service. In zones seeking skilled engineering or electronics projects, the existence of good quality sub-contractors and component suppliers is an important advantage.

(vi) Labour: The cost and productivity of the workforce as well as the range of skills will determine to a large extent the type of industry which will be attracted to a zone. If the workforce is unskilled, low technology labour assembly projects will predominate.

(vii) Organisation: An organisation which can (a) deal effectively and quickly with investor applications and (b) assist investors in the establishment phase, is important.

(viii) Urban Environment: For higher technology projects requiring qualified expatriate personnel, a good living environment is important. Recent location studies show this factor increasing in importance for technology projects.

(ix) Industrial Park: The availability of a developed site in an industrial park or factory to rent is an important attraction for most investors. The location layout, building density, and design standard will depend on the type of investor.

2.10 Industrial Park

A general site specification for free zone industrial parks would include the following:

(i) Proximity to existing water, electricity, sewage, telecommunication lines and road network to minimize external costs.

(ii) Size - most EPZ parks are in the 40 - 80 ha range. However, the size must be related to the potential as well as urban and regional planning considerations.

(iii) Site - ideally should be level or gently sloping and rectangular shape with good ground bearing conditions.

(iv) Services - water supply of around 20 - 40

litres per ha per day, depending on worker density and electricity supply of 0.1 megawatts per ha. These are general guidelines for light industry which does not use water in the production process. Heavy electricity users like founderies will obviously require more electricity.

(v) Location - the location will be determined to some extent by availability and cost of sites. For higher technology industries a prestige higher cost location is usually preferable (e.g. pharmaceuticals, medical, electronics). The garment sector will usually opt for a lower cost location.

(vi) Design and layout - as with location the design and layout will be determined to some extent by the type of investor. Garment companies will usually prefer a high density low cost layout. Others will opt for a low density well landscaped site.

2.11 Foreign Investment

Attracting foreign investment is an important part of the development plans of most countries. This applies to highly developed countries like Austria, Sweden and the United States as well as oil producing states of the Middle East and developing economies in Africa,

Asia and Latin America. Competition at all levels for investment is intense. To be successful in attracting investment the first step is identifying the type of investor who will contribute to the economic or planning objectives of the country or region in question. The second step is understanding the requirements of those investors and the factors which motivate and encourage them.

Investors will choose a location which offers a comparative advantage or series of advantages over other locations. Comparative advantages can be natural or man made. Natural advantages include location (e.g. Singapore and Rotterdam) climate or soil (New Zealand) or wealth in or below the ground (forests, ore bodies, oil). Man made advantages include an efficient infrastructure, streamlined administration, skilled workforce, or supportive research or enterprise environment (Boston, Silicon Valley).

The advantages or location characteristics sought by industry change over time (e.g textile, steel). Locations can alter the mix of advantages on offer by developing infrastructures, skills, institutions, and support services. Singapore, Taiwan and Ireland are examples of countries which over the medium/longer term evolved from centres of low skilled to high

skilled technology.

There are four broad identifiable categories of foreign investor - each seeking different types of comparative advantage and subject to different influences. They are:

(i) Extractors and processors of primary raw materials (agriculture, mining, oil, forestry).

(ii) Largescale producers of a wide range of branded products for domestic market consumers.

(iii) Investors in or purchasers of infrastructure facilities.

(iv) Investors producing goods for export using imported inputs.

The first category of investor is motivated primarily by the availability of material and costs of extraction. If the proposition is attractive, an operating environment which is difficult physically (Alaska) or administratively (Nigeria).

The second category (largescale producers of consumer products) are motivated primarily by market size, and the level of competition. If the market is big enough (Brazil, Nigeria, Indonesia), political, administrative or economic uncertainties can be

overcome - especially by largescale producers operating on short payback periods for investments.

The third category takes a longterm viewpoint and relates investment returns to potential risks. This is a relatively new category of investor.

The fourth category is often a smaller investor who can choose between many locations. Cost, market access skills, living environment, support services and incentives are all considered. The weight attached to different factors varies among investors. Clothing companies emphasize cost, market access quota availability. Electronics companies are more concerned with skills and the living environment.

From a free zone viewpoint, the fourth category is the most important. Research has shown that categories 1 - 3 are not strongly influenced by promotion efforts or incentives. However, the mobile export oriented investor is strongly influenced by both promotion efforts and incentives.

2.12 Promotion

Investment promotion has often been compared with industrial marketing. The decision to purchase a major piece of equipment is similar to a decision to

purchase or locate a new production facility. The stages in the decision making process include (i) awareness, (ii) interest, (iii) evaluation and trial, and (iv) purchase.

Different information sources and marketing strategies are used at different stages in the decision making process. During the awarensss and interest stages, impersonal information sources such as advertising brochures and good press articles are most effective in building credibility. During the late stages (evaluation and trial) personal contact becomes more important.

Louis T. Wells of the Graduate Business School at Harvard University has studied the effectivness of different organizational formats for investment promotion purposes. The three options are (i) a private agency, (ii) a government ministry or department, or (iii) a quasi government agency.

There are few private agencies "as the result of investment promotion are not easily captured in a form that would generate profits for a private firm". Three are two private agencies - one in Venezuela and one in Costa Rica (CINDE). They often encountered difficulties in developing effective working relations with government organisations. Government departments

often lack flexibility. Because of this they cannot react quickly to events or recruit personnel with suitable qualifications.

The Wells studies concluded that quasi government agencies are the most effective format. They can overcome the problem of inflexibility of government ministries, yet represent the government as a marketing organisation.

To be fully effective however, the agency must have (and be seen to have) the support of government at the highest level as well as "across the board" support of different ministries. The most effective promotion agencies today e.g. Singapore Economic Development Board, Malaysian and Irish Industrial Development Authorities and the Scottish Development Agency all have this type of support.

2.13 Incentives

The incentives on offer do influence the decisions of export oriented investors choosing between different locations within a region or country when "all other things" are equal or nearly equal.

However, when "all other things" are not equal i.e. infrastructure and services in location A are far

superior to those in location B - then no incentive package in location B will compensate for the infrastructure or services deficiencies. Only when the "fundamentals" are corrected in location B i.e. investment climate, infrastructure and services, will improved incentives make an impact.

In a Gulf context comparative incentives are important only when the investment climate, infrastructure and support services in Qatar compare favourably with that in neighbouring states (especially UAE and Bahrain).

2.14 Costs and Benefits

There have been very few cost benefit studies in free zone development despite the fact that there is probably more data available on free zones than almost any other development project. As a general rule, zones with large unoccupied areas after 10 years of development, or zones where development costs are exceptionally high and which require a continuous subsidy, can usually be classed as failures. The easiest way to avoid failures in the above sense is to

(i) choose a location which is inexpensive to develop close to existing services, and

(ii) develop the project on a phased basis with the first phase developed and completed in 2 or 3 years.

In determining the scale of the first phase, conservative demand projections should be used. The private sector is more likely than government agencies to choose commercially viable locations and develop the project on the basis of realistic demand projections. A number of government sponsored free zones have failed because of (i) location choice based on political considerations and (ii) over ambitious development plans.

Because of these considerations the World Bank and other development agencies are now strongly advocating private free zone development. The main non commercial benefits associated with free zone development include employment (mostly low skilled), the transfer of information and technology (normally low level technology and production process skills), and the multiplier effect on the rest of the economy (often calculated at 2.0). A factor which can eliminate many of the advantages of a well planned and executed free zone project is largescale subsidies. Peter Warr (i) in his analysis of the Penang free zone development project showed that electricity subsidies offset most of the advantages arising from employment creation and foreign exchange earnings.

(i) Peter Warr : Export Processing Zones : The Economics of enclave Manufacturing : World Bank Research Observer No. 1 June 1989.

CHAPTER 3

FREE ZONE DEVELOPMENT IN THE GULF REGION

3.1 Introduction

Any free zone development in the Gulf region must take account of possible changes in the trading environment over the coming years. Possible changes include (a) improving marketing conditions in major states surrounding the Gulf such as Iran, Egypt, Iraq, Pakistan and India. The market in the major neighbouring states is 650 billion $, which is nearly 3.5 times the size of the Gulf market (see Table 1) and (b) possible changes in the GCC itself arising from GATT membership and/or the completion of a customs union among GCC members. GATT membership may in time lead to changes in the GCC rules of origin - eliminating the ownership requirement and the origin rules. It is possible to construct a number of possible scenarios of how the rules and conditions in the GCC will evolve and change over the coming years.

In evaluating the potential of any free zone proposal it is necessary to consider or take account of (i) the possible markets which the free zone might serve, (ii) the market size, and (iii) the trade regime likely to

prevail in each market.

In one sense the possible market for any free zone product is the whole world. However, the more obvious or realistic markets are those of the neighbouring countries or major trading partners. (The two groups do not necessarily overlap. In the case of Gulf countries the major trading partners are Europe, the U.S. and Japan). In the case of trading zones, the neighbouring countries are usually the key markets. In the case of low technology (garments, electronic assembly) industrial zones in developing countries the major markets are the U.S., Europe and Japan. Neighbouring country markets are insignificant. In the case of manufacturing zones producing products involving medium or higher technology products, neighbouring country markets are often important. In the case of international service activity (especially financial/professional ssrvices where personal contact is important), neighbouring countries are usually the key markets.

TABLE 1 - MARKET SIZE (1991)

G.C.C.	GDP in US $	Population in Million	Imports in US $
Bahrain	4	0.5	4
Kuwait (i)	24	2.1	6
Oman	12	1.6	3
Qatar	7	0.5	2
Saudi Arabia	108	16.4	26
U.A.E.	34	1.6	13
Total G.C.C.	189	22.7	54

(i) 1989 figures

MAJOR NEIGHBOURING COUNTRIES					
Egypt	33		53	8	
India	305		850	20	
Iran	127		58	22	(ii)
Iraq	16	(ii)	20 (ii)	4	(ii)
Pakistan	43		116	9	
Syria	14		13	3	
Turkey	112		57	21	
Sub-total	650		1167	88	

(ii) estimated

Japan	3385	124	237
U.S.A.	5673	250	509
EC (iii)	5800	350	1160

(iii) EC is estimated and includes proposed new members Austria, Finland, Norway, Sweden.

Source : The Economic and Business Report 1993/4.

Egypt, India, Syria and Turkey are pursuing economic reform policies designed to expand the role of the private sector and liberalize imports. Growth prospects are generally good. This region could prove attractive for firms based in free zones in the Gulf. Imports have been growing at 10% annually. The major imports are machinery, transport equipment and other manufactured goods.

3.2 The Gulf Co-operation Council (G.C.C.

The unified economic agreement of the G.C.C. established a free trade area among the 6 member states. Articles 1 and 2 provide for the exemption of charges on products of national origin. Article 3 defined products of national origin as products manufactured in plants 51% owned by member states citizens with value added of at least 40%.

Article 4 sets the basis for establishing a customs union by providing for a uniform minimum customs tariff.

At present the standard tariff in member states ranges from 4% in the U.A.E., Qatar, Oman and Kuwait to 5-10% in Bahrain and 12% in Saudi Arabia. Government imports are exempt in all member states. Industrial and agricultural raw materials and

equipment are exempt on a case by case basis.

Saudi Arabia has a 20% tariff on a wide range of products made in the Kingdom. Kuwait and Bahrain have tariffs ranging from 10% to 30% on a smaller number of products. Qatar has 20% on iron bars. Dubai has exempted a large number of products and instituted a tariff of 10-20% on 6 products. Many food products are exempt from duty in all member states. Tobacco and alcohol are either prohibited or subject to special duties.

At this point in time it is difficult to predict how the G.C.C. may evolve in the next 5-10 years. All G.C.C. members have joined or are in the process of joining GATT. One possible consequence of joining GATT is an alteration in existing GCC origin rules. Within the GATT framework there are proposals to draft a standard set of origin rules. It has been suggested that the rules would be drafted by the customs co-operation council in Brussels over a 3 year period.

A common set of origin rules would eliminate nationality clauses and be product specific. The standard origin rule is a change of tariff heading. However there are many exceptions to such a rule. The origin rules attached to many trade agreements

between the EC and 3rd parties run to 60 or 70 pages.

If the G.C.C. evolves into a fully fledged customs union, origin rules become obselete within the C.C.C. area.

3.3 Free Zones in the G.C.C. - Theoretical Prospects

It is possible to construct a matrix of scenarios covering (i) different trade regime options in the G.C.C. and (ii) different categories of firm and how each might benefit or suffer in a free zone.

The 1st scenario is a free trade area as exists in the G.C.C. today with present origin rules (51% Gulf ownership and 40% value added). Free zone companies selling in the G.C.C. market pay import duty on machinery and (a) on the value of the finished product or (b) on the value of the imported raw material content of the finished product.

The 2nd scenario is a G.C.C. free trade area with new origin rules (no nationality ownership requirement but substantial value added). Free zone companies pay duty on imported machinery and (a) on the value of the finished product or (b) on the value of the imported raw material content.

The 3rd scenario is one where the existing origin rules apply. Industrial machinery and materials are exempt from duty (a) on a case by case basis with a lot of bureaucracy or (b) on an "almost automatic" basis.

The 4th scenario is one where new origin rules apply (no nationality requirement but substantial value added). Industrial machinery and materials are exempt from duty on (a) a case by case basis with a lot of bureaucracy or (b) on an "almost automatic" basis.

Four possible firms are considered and how they might react to a free zone proposal. For the purposes of this review it is assumed that the operating conditions in the zone (physical, administrative) are at least as good as outside the zone.

Firm A is a warehousing and distributions firm selling in both GCC and other markets. Firm B is a foreign (51%) manufacturer uses largely imported (non GCC) materials and sell most (80%+) of his output outside the GCC. Firm C is a Gulf (51%) manufacturer with 40% + value added using largely imported materials and sells most (80% +) of his output in GCC markets. Firm D is a foreign (51%+)

manufacturer with "significant" value added using most imported materials and selling most (80% +) of its output in GCC markets.

Table 2 identifies the circumstances under which firms will opt for a free zone location. In all circumstances trading and distribution companies will opt for a free zone location. In existing circumstances (scenario 1a) foreign mancfacturing companies (B and D) will opt for a free zone location. With countrywide free zone conditions (including freedom of ownership) and streamlined bureaucracy (4b) no manufacturing company will need special free zone conditions.

TABLE 2 - CHOOSING A FREE ZONE SITE

Scenario	1a	1b	2a	2b	3a	3b	4a	4b
Firm A (Trader)	yes	yes	yes	yes	yes	yes	yes	yes
Firm B (Offshore manu/ facturer)	yes	yes	yes	yes	yes	neutral	yes	neutral
Firm C (Gulf Co./ Gulf Market)	no	yes	no	yes	no	no	no	no
Firm D (Foreign Co./ Gulf Market)	yes	yes	no	yes	probably	neutral	no	no

The important points from the above table are:

(1) Traders involved in warehousing/distribution will always opt for a free trade zone location.

(2) With existing nationality origin rules, foreign owned companies will probably choose a free zone site rather than a "domestic economy" site (1a and 3a).

(3) If free zone firms can sell products in GCC markets at concessionary duty rates (duty payable only on the imported material content of the product), the attractiveness of a free zone increases (1b and 2b).

(4) Where free zone trade conditions combined with a "lot of bureaucracy" are available countrywide, the free zone still has attractions for some investors (3a 4a).

(5) With countrywide free trade conditions and no bureaucratic problems a free zone is not attractive for manufacturing industry (3b, 4b).

3.4 Free Zone Development in the Arabian Gulf and surrounding region

1. Bahrain - A free transit zone was established in the late 1950's beside the harbour of Mina Sulman. Activity at the transit zone has increased sharply in recent years. A joint Bahraini/New Zealand cold storage facility is being developed for storage and distribution of goods throughout the Middle East. Apart from the transit zone, Bahrain has promoted the concept of duty free manufacturing facilities throughout the country. A new industrial conplex is being developed at Hidd. Part

of the area of this complex will be set aside for free zone development.

Apart from free zone development, the Bahraini government is mounting a major promotion effort to attract investment, including the creation of an attractive incentive package, a development bank and an investment promotion agency. The incentives on offer include a 100% foreign ownership, duty free import and export facilities, tax free facilities and generous financial incentives to employ Bahrainis.

The international financial sector is well established in Bahrain. There are about 20 commercial banks, about 50 other offshore banking units, about 50 or so representative offices, upwards of 20 investment banks as well as foreign exchange bankers and insurance companies. Manufacturing and distribution companies are now moving to Bahrain in significant numbers. DHL has recently established a new regional centre in Bahrain.

2. Dubai - The Jebel Ali free zone in Dubai is the largest and best known in the Middle East. Dubai has a tradition as an important trading and distribution centre for many years. The Jebel Ali zone is part of a

100 sq. kilometre complex including port and industrial park. The development began in the early 1980's and by 1991 about 300 investors had opted to establish businesses in the zone. Table 3 attached shows a breakdown of investors by country of origin and activity. This table is based on a brochure list of investors supplied by the Jebel Ali free zone authority.

TABLE 3 - JEBEL ALI FREE ZONE

Activity	Mfring	Trading	Freight	Oil	Legal/ Finance	Marine	Other	Total
Origin								
UK	57	50	-	2	-	-	2	111
UAE	20	18	9	8	12	2	11	80
Other Gulf States	5	8	-	-	-	-	1	14
Europe (excl.UK)	10	20	-	2	-	-	1	33
Asia	5	10	-	-	-	-	1	16
America	8	11	-	4	-	-	1	24
Other	5	12	-	-	-	-	2	19
Total	110	129	9	16	12	2	19	297

TABLE 3A - MANUFACTURING SECTOR BREAKDOWN

Sector	Manufacturing
Garments	27
Engineering	16
Building Materials	3
Packaging	10
Chemicals	15
Food	13
Other	26
Total	110

Source : Jebel Ali list of Investors (1991)

At present there are more than 500 tenants in the Jebel Ali zone. The main attractions include the very positive investment climate which includes 100% foreign ownership, no customs or excise duties, no taxation, low cost facilities, excellent support services and a strong commitment at all levels in government to solving investor problems and removing obstacles.

Fujairah - The Fujairah free zone was established by an Amiri Decree in 1987. The zone is beside the port and close to the international airport. The zone authority provides office and warehousing accommodation as well as developed sites for lease in a range of sizes at competitive rents. To date the zone has attracted investors from Asia, Europe and North America including food distribution, chemicals, cosmetics, garments, jewellery, packaging, mechanical and electrical engineering, machinery, metal fabrication and trading. In line with other zones the Fujairah zone permits 100% foreign ownership, has no restrictions on repatriation of profits or dividends or capital, no import or export duties, no personal or corporate taxes. The zone authority assists investors during the establishment phase with visas, work permits, health cards, housing and other establishment problems. A list of 56 projects in the zone include 16 trading projects, 19 related to freight forwarding and shipping activity, 1 leasing

corporation, 16 manufacturing (including 7 garment) and 4 other projects.

4. Other Gulf zones - At present free zone projects are being planned in Abu Dhabi and Kuwait. Kuwait had a significant re-export trade prior to the Gulf war. Much of this went to Dubai after the war. Plans for a free trade zone were approved late in 1993 which included a warehousing and transhipment complex on a 26 acre site near Shuwaikh port costing 5 million Kuwaiti dinars. Future plans also envisaged the development of an export processing zone.

5. Iran - The Iranian parliament in 1991 designated Qeshm Island as a free zone. The plans for the zone envisage energy intensive industries and also a banking complex and a tourist resort.

6. Jordan - There are free zones at Aqaba, Zurka, Queen Alia international airport, and at Jaber on the Syrian/ Jordanian border. At the end of 1991 there were 21 industrial projects and 178 commercial projects operating. Employment in the industrial projects was about 300. The investors came from the Middle East, Far East and Europe. About half of the investors are of domestic origin.

An objective of the Aqaba zone is to replace Bahrain as

a maior warehousing and distribution centre in the Middle East. Free zone companies can benefit from a 12 year tax holiday as well as the right to import machinery and materials duty free.

7. Syria - There are a number of free zones operating in Syria including Damascas, Aleppo, Tartous, Latakia and Deria. The first transit zone was established at Damascus in 1952. In 1971 a free zone authority was established to promote and develop the free zone concept throughout syria.

8. Lebanon - Successful free zones operated in Beirut and Tripoli before the civil war erupted in the mid 1970's. These free zones were established in 1948.

9. Egypt - Free zones have been operating in Egypt since the mid 1970's at El Nasr near Cairo as well as Alexandria. Employment in these zones, according to World Bank estimates is in the order of 25,000 people.

CHAPTER 4

FREE ZONE DEVELOPMENT IN QATAR

4.1 The Gulf Economies

The economies of the Gulf states have many common characteristics and face some similar problems. They are all to a greater or lesser extent dependent on oil and have benefited from the oil price increases of the last 20 years. In the case of UAE, Kuwait and Oman, oil accounts for in excess of 40% of GNP. The relevant figures for the other states are Qatar (close to 35%), Saudi Arabia (around 27%) and Bahrain (around 18%).

The benefits of oil revenues are reflected in high levels of per capita income. Kuwait, UAE and Qatar have per capita incomes of 15-20000$ each, per capita incomes in Saudi Arabia, Oman and Bahrain are in the 6-9000$ range. Oil accounts for over 80% of exports in most states.

The major imports are food (around 15% of the total in most states), machinery and transport equipment and other manufactured products. Intermediate raw materials for further processing are of limited significance at present, reflecting the nature of the existing industrial structure. Japan, the UK, the US, Germany,

France and Italy are the main sources of imports. The Japanese share of the Gulf market is around 14% in most states, the UK share is 11-13%, the US share ranges from 20-25% in Saudi Arabia and Kuwait to 8% in Oman and UAE.

The importance of the manufacturing sector varies from about 5% of GNP in Oman to 16% in Bahrain. The industrial sector in most states is made up of a heavy industry sector based on hydrocarbons and the production of metals/metal products, together with a small/medium industry sector supplying food, building materials and consumer products to the domestic market.

With the exception of Saudi Arabia agricultural production and potential is limited. The development objectives of the GCC member states are similar in many respects. They include:

(i) Reduced dependence on the oil/hydrocarbons sector by developing other sectors.

(ii) Reduced dependence on expatriate workers both skilled and unskilled.

The development proposals vary from state to state as well as the problems faced by individual states. Bahrain for example has a 10-15% unemployment rate among its citizens. In other states unemployment is negligible. Dubai and Bahrain are developing as major centres of tourism and international commerce. Saudi

Arabia on the other hand is emphasizing industrial development (based partly at least on import substitution) and the development and exploitation of its mineral resources.

To date Bahrain and Dubai have gone further than any other GCC state in creating the conditions necessary to attract mobile export oriented foreign investment.

4.2 Intra G.C.C. Trade

Overall intra GCC trade is a very small part of GCC trade. The total trade of GCC member states (imports and exports) was in the order of 138 billion $ in 1991 (GOIC data base) with exports of 82 B $ and imports of 56 B $. Non-oil exports accounted for about 12% of total exports or about 10 B $. Exports to GCC states were in the order of 4.5 B $.

Oil is one of the major products in intra GCC trade. Bahrain and UAE are major importers. Other important products include:

(i) Bars and rods produced in Qatar and Saudi Arabia. (Most of the output of Qatar Steel is used in the construction industry in other Gulf states).

(ii) Chemicals produced in Qatar and Saudi Arabia.

(iii) Paint and paper products produced in Kuwait.

(iv) Cement mainly from Saudi Arabia.

(v) Aluminium products from Bahrain.

(vi) Food from Saudi Arabia, which is one of the world's major wheat producers with about 4.0 million ton annually.

(vii) A range of manufactured articles produced (or at least assembled) in Dubai.

In terms of intra Gulf trade, the principal exporters are Saudi Arabia with its relatively diversified economic structure and the UAE - the major distribution centre. The UAE is the principal Gulf country exporting to Oman, Qatar and Saudi Arabia. Elsewhere in the Gulf (Kuwait, Bahrain and UAE) Saudi Arabia is the major exporter.

Tables 4 and 5 set out Qatar's trading relationship with other GCC states and the rest of the world.

TABLE 4 - 1992 TRADE IN M QR'S

SIC No.	Imports		Exports	
	Total	GCC	Total	GCC
1 Food	928.5	106.3	25.3	24.8
2 Beverages Tobacco	87.9	19.1	0.2	0.2
3 Crude Materials	229.8	70.9	24.4	6.1
4 Mineral Fuels	50.5	34.5	11649.6	117.0
5 Animal, Vegetable Oil	38.7	18.9	0.2	0.1
6 Chemicals	462.5	94.5	1136.8	180.3
7 Manufactured Goods	1333.7	196.9	646.1	644.7
8 Machinery, Transport	3232.9	83.4	1.8	1.5
9 Misc. Manufactures	969.5	155.9	114.9	11.0
10 Other	2.0	0.3	0.8	0,8
Total	7336.0	780.7	13600.1	986.5
Total (excl.3)			1950.5	975.0

TABLE 5 - TRADE BY REGIONAL GROUP IN M QR'S (1992)

	Exports	Imports
G.C.C.	986.5	780.7
Kuwait	65.9	24.6
UAE	497.0	370.3
Saudi Arabia	358.0	263.7
Bahrain	30.8	99.8
Oman	34.8	22.1
Other Arab Countries	28.6	231.1
European Community	59.8	2625.4
Other Europe	2.4	327.8
America	113.4	1064.5
Asia/Oceania	3347.9	2288.5
Africa	9.0	15.4
Oil	9052.4	15.4
Total	13600.1	7336.1

Source : CSO Qatar.
Features worth noting are:

(i) The importance of one product (iron and steel rods) in total exports to GCC states (65% in total).

(ii) Exports to GCC states account for 50% of non oil exports.

(iii) The major industries (chemicals and steel) account for over

90% of non oil exports. The only other significant exports are clothing (109 M QR's) and food (25 M QR's).

4.3 The Manufacturing Sector in Qatar

In the terms of the GCC, Qatar has a well developed manufacturing sector which accounts for about 13% of GNP. This compares with Oman (4%), Saudi Arabia and UAE (about 8%) and Kuwait and Bahrain (about 15%). The most important companies are two major chemical companies and a steel producer. All three are government owned, established in the 1970's and have minority foreign partners. Apart from these the sector is dominated by smaller scale industry serving the domestic market.

Foreign investment is limited to 37 (out of 321 licenced/ registered) companies with minority foreign shareholdings. Investors from other Gulf states are involved in 7 companies, other Arabs (18 companies), Asians (6 companies) and Europeans (7 companies).

Table 6 provides an analysis of the 321 listed companies by size and sector. Apart from the 3 large chemical/steel companies and a number (24) of recently established garment producers, most enterprises are very small scale. Most of those garment producers were established in the last 5/6 years.

Table 7 outlines the employment growth for the 7 years 1984-91. The most notable features of the table are the growth in the clothing sector and the decline in employment in the non-metallic sector.

TABLE 6

MANUFACTURING ESTABLISHMENTS BY EMPLOYMENT SIZE

Size / Sector	0-20	21-50	51-100	101-150	501+	Total
Food/Drink	24	13	7	3	-	47
Tobacco						
Clothing/ Textiles	2	1	3	24	-	30
Wood/Furniture	16	15	3	-	-	34
Paper/Printing	6	9	6	2	-	23
Chemicals	28	17	7	2	3	57
Non-Metallic Products	42	18	6	4	-	70
Base Metals	-	-	-	1	1	2
Fabricated Metals	34	19	2	2	-	57
Other	-	1	-	-	-	1
Total	152	93	34	38	4	321
%	47.4	29.0	10.6	11.8	1.2	100

Source: List of Establishments Registered and Licenced up to end 1991. Ministry of Industry.

TABLE 7 - EMPLOYMENT CHANGE

	1984	1991	Change	% Change
Food Drink Tobacco	1563	2107	+544	+34.8%
Textiles Clothing	1865	5057	+3192	+171.2%
Wood Furniture	1827	1862	+35	+1.9%
Paper Printing	1126	1138	+12	+1.1%
Chemicals	2800	2892	+92	+3.2%
Non-Metallic Products	4144	2120	-2024	-48.8%
Base Metals	1223	1097	-126	-10.3%
Fabricated Metals	1508	1871	+363	+24.1%
Other	104	109	+5	+4.8%
Total	16160	18253	+2023	+12.5%

Source: Annual Industrial Surveys, CSO Qatar.

4.4 The Planning Context

The supreme planning council published its first 3 year socio-economic plan covering the years 1992-95. The plan recognises the need for diversifying both the revenue sources and the productive base in the economy. Considerable stress is placed on finding productive employment opportunities for Qataris and reducing the country's dependence on a foreign workforce. Increased productivity is another issue which is highlighted.

The overall growth target in the plan is 6% annually. The individual sector targets are agriculture 3%, oil and gas 7%, manufacturing 8%, utilities 8%, building activity 16% and trade 6%.

In order to achieve the objectives there is a need to introduce improved integration and co-ordination between the different organisations involved in the development process. The need to revise legislation, regulations and

The importance of education is mentioned throughout the document. In particular, the need to link technical education and vocational training with the developing

needs of the economy is essential if the programme of "Qatarization" is to succeed.

The role of finance and credit in the development process is covered. In addition to establishing specialized development banks, the commercial banks will be encouraged to provide medium term development finance for suitable projects.

The role of foreign investment will be to:

(i) help bridge the expected gap of 15 billion QR's between the planned investment and local savings, and

(ii) introduce new technologies and skills into the economy.

The major development in the manufacturing sector in recent years has been the growth of the garment sector. This has resulted in an increased inflow of relatively unskilled non-Qatari workers and very little in terms of foreign investment and new technology.

If the manufacturing sector is to develop in a way intended in the plan it will be necessary to:

(i) Identify the types of industry which will contribute to the plans/targets (technology, job opportunities) in the short and medium term. These industries would be based on the comparative advantages on offer (e.g. low cost electricity, central Gulf location, and in the medium/long term a skilled workforce and possibly a well established venture capital sector). In this context a number of project studies have already been completed.

(ii) Conduct market research to identify the attitudes and requirements of investors.

(iii) On the basis of the market research put in place the necessary conditions in Qatar to attract the relevant investors. These include the legal, administrative and physical conditions and support services. As most of the projects wil probably involve the importation of materials for processing and export, one of the necessary conditions will be an effective free trade regime in the form of a free zone or countrywide free trade facilities.

(iv) Conduct a suitable investment promotion campaign.

4.5 The Institutional Framework

Overall responsibility for industrial development rests with the Ministry of Energy & Industry. Within this framework the Qatar General Petroleum Corporation (QGPC) is responsible for exploration, production and sale of oil and gas, as well as the establishment and management of hydrocarbon based industries, including oil refineries, fertiliser plants and petro-chemical complexes.

The development of non hydrocarbon industries, as well as small and medium industries, is the responsibility of the departments of industrial development and industrial licencing and control.

The main responsibilities of the ministry are:

(i) Proposing and executing industrial development plans.

(ii) Promoting and developing industry and identifying obstacles and problems

(iii) Supervising and monitoring development and

(iv) Industrial licensing.

In its efforts to promote industrial development, the ministry has close to 60 project profiles (mainly for energy intensive projects), prepared by various consultants and UNIDO personnel. About 10% of these projects have been implemented to date including gypsum,

soap and metal coating projects.

The ministry has prepared a series of proposals for investment promotion. The department of industrial development evaluates 50 to 60 project proposals annually. In addition, it services enquiries from potential overseas investors. Some attractive enquiries have failed to develop into projects because of (i) more attractive incentives and investment opportunities in other Gulf states; and (ii) a lack of confidence on the part of some Qatari joint venture partners.

A problem in responding to enquiries by potential investors is the lack of good promotion material setting out clearly the incentives, facilities, regulations and procedures in relation to investment.

The lack of clear guidelines creates uncertainty in the mind of many foreign investors. It is difficult if not impossible to persuade mobile investors to invest in Qatar in such circumstances.

4.6 The Legal Framework

The most important law in Qatar in relation to foreign investment is Law No. 25 of 1990. Article No. 1 allows non Qataris to engage in commerce and industry provided

there is a Qatari partner with 51% of the company.

Articles 3, 4 and 5 deal with the exemption from the provisions of Article 1 by way of decree. The application for exemption should be submitted to the Ministry of Economy and Commerce, along with supporting documents by a services agent of Qatari nationality. The decree will be issued in 2 months. This law in its present form will not encourage export oriented foreign investors who want to retain a majority shareholding in a project. A more positive law stating clearly that majority or 100% foreign investment will be permitted, at least in free zones, is necessary for successful free zone development.

Law No. 7 of 1976 deals with the establishment of a free zone at Doha port. Article 4 foresees "free zones attached to the (free zone) corporation in other locations in the state". Activities permitted in a free zone include storage, transhipment, packing, assembly of cars and trucks and other industries or operations "not in competition wth national industries". Article 3 provides for the establishment of a free zone corporation with a board of directors (total 7) representing various state institutions and the Chamber of Commerce.

Some amendments to this law would be desirable to bring it into line with current thinking on free zone

development. Following changes may be considered:

(i) Renaming the law free zone in the state of Qatar.

(ii) Setting out a clear procedure for establishing free zones.

(iii) Allowing the private sector to develop zones.

(iv) Allowing the private sector increased representation at board level on the corporation.

(v) Giving the corporation autonomy in determining prices and other aspects of routine operations.

(vi) Devolving power from the council to the relevant minister to make regulations.

(vii) Permitting the storage of goods imported for local distribution in a free zone (Article 10.3). It is often impossible to separate goods for local consumption from free zone goods.

(viii) Define the phrase "concerned authority" in Article 14 - is it the customs administration?

4.7 Customs Administration

The department of customs is headed by the Director General under the Ministry of Finance and Commerce. Unlike many other countries the standard customs tariff at 4% is low and not a major revenue earner for the government. Most documentation is processed at the Head Office. The present staff is capable and adequate to handle the existing workload. There are proposals to increase the number of staff and facilities in line with

new demands on the service.

The following documents are needed for any import.

(i) 4 copies of a commercial invoice.

(ii) A certificate of origin.

(iii) Copies of a bill of lading.

(iv) Copies of an insurance policy and

(v) A packing list.

According to investors customs procedures are not a problem. There are, according to traders, some delays in processing documents. The extent and cause of such delays need to be reviewed in the context of a full feasibility study. It is possible that incomplete documentation rather than customs administration is the problem. The customs department operates from 0600 hrs. to 1300 hrs six days a week from Saturday to Thursday.

Industries which are export oriented e.g. garment production, can import equipment and materials duty free for processing and export. Investors seeking such facilities apply to a committee within the ministry of finance and commerce.

4.8 Support Facilities

The situation is covered in some detail in Appendix 1. As this is a pre-feasibility study the key question is

whether or not the physical and commercial support facilities are generally suitable for free zone development and if not, whether any serious or major obstacles exist. The conclusion in the case of Qatar is that the overall situation is good. Some reservations have been expressed about the adequacy and cost of sea transport which needs to be fully investigated in the context of a full-scale study. Another problem which has been touched upon by some people during the pre-feasibility study is the inadequacy of the third level education and vocational training facilities at present. From the point of view of developing small and medium-scale industries, a service institute which will impart technical and vocational training programmes related to promotion of industrial development is essential.

Banking and other commercial support facilities are generally good. There may be a need (but this would have to be proven in a feasibility study) for an organised venture capital facility and other forms of medium and long term financing.

4.9. Potential Activities

Qatar, Dubai and Bahrain have many similar but not identical location characteristics. They are all GCC members with a high dependance on hydrocarbon and heavy industry activity. Per capita income is high. There is

a tradition and aptitude for trading in all countries. They all have relatively central locations within the Gulf and good access to Saudi Arabia which is the main Gulf market. While Qatar may not wish to compete directly with free zone developments in Dubai, Bahrain or similar locations, it may in the right circumstances attract a percentage of the investment flowing into the Gulf at present seeking free zone locations. Table 3 and 3a provide an analysis of the type of activity and the origin of investors established in Jebel Ali and Fujairah. In Jebel Ali the emphasis is on trading and assembly type manufacturing. Garments account for about 25% of the manufacturing projects. Trading, manufacturing and shipping support services are also major activities in Fujairah.

A number of international companies are using both Bahrain and Dubai, not just as distribution centres but also as regional headquarters.

From a Qatar economy viewpoint regional headquarters and distribution activity, as well as related services like repair, maintenance and assembly may have attractions, compared with low skilled manufacturing activity. The employment density in trading and distribution is low compared with assembly manufacturing. Warehousing and distribution companies employ between 20 and 50 people per acre compared with about 400 for garment

manufacturing companies. Warehousing distribution and headquarter companies provide a wide range of jobs including marketing, administration, accounting, handling, packing and despatch. In labour intensive manufacturing activity about 90% of the workers are low skilled production workers. Overall warehousing and distribution should be able to provide more suitable employment opportunities for Qataris than low technology manufacturing.

The possibility of developing high technology at this point in time is limited. There is little evidence of such development elsewhere in the Gulf. However, given suitable government commitment, and particularly in the area of technical education and vocational training and a longer term vision, it may be possible to develop a reasonable medium/high technology sector. It has been sone successfully in the laast 20 years in other parts of the globe, most notably in Singapore, Ireland and Taiwan. The free zone concept has been a part (but only a part) of the development process in these countries.

The benefits which a free zone would bring for traders would be very much along the lines of those outlined in Section 2.4 based on the U.K. government's 1993 free zone working group conclusions and the analysis in Section 3.3. For traders there would be a "customs" or duty benefit. Reduced customs formalities, a streamlined

organisation and well developed infrastructure would be of particular benefit to small scale traders. Such a zone would also have "special appeal and marketability" and could provide a framework for promoting foreign mobile export oriented investment into Qatar.

4.10 Conclusions

4.101 Free Trade Zone

A free trade zone to accommodate warehousing, packaging, storage and transhipment activity could be developed successfully in Qatar. The scale of the development is, however, impossible to predict at this stage but could be ascertained in the context of a full-scale feasibility study. The benefits which a free zone would bring for traders would be very much along the lines of those outlined in Section 2.4, based on the U.K. government's 1993 free zone working group conclusions and the analysis in Section 3.3. For traders there would be a "customs or duty benefit". Reduced customs formalities, a streamlined organisation and well developed infrastructure would be of particular benefit to small scale traders. Such a zone would also have "special appeal and marketability" and could provide a framework for promoting foreign mobile export oriented investment into Qatar.

2. Much of the necessary support infrastructure is in place

including good telecommunications, water supplies and electricity.

3. A very important aspect of any trade zone is the quality and range of international transport facilities and related services, including handling, freight forwarding and customs clearance. An important part of any feasibility study would be an indepth examination of the transport situation and related facilities and services to determine what improvements are possible and necessary. As part of the transportation review, the development plans and timescale for the harbour at Doha would be reviewed.

4. There are a number of potential sites in or near Doha. Site selection should be based on the results of the marketing studies which would indicate the potential scale of activity and the accommodation requirements of potential investors.

5. Investors from Qatar and overseas have expressed an interest in a trade zone in Qatar. A meeting with the Chamber of Commerce during the course of the study was very well attended, reflecting serious interest by members of the Qatari business community.

6. The water, electricity and telecommunications requirements of a trade zone are modest. The relevant

authorities would have no difficulty in supplying these requirements.

7. Trade zone activity is not labour intensive. There would be about 50 workers per acre compared with 400 in labour intenseive manufacturing industries like garment production. Employment opportunities in the trade sector would be more varied than in labour intensive manufacturing where the emphasis is on low skill production workers. With the varied employment opportunities, a number of Qataris should be able to find suitable positions in the zone.

8. Value added in a trade zone is initially small. If, however, the turnover is high enough the total value added can be significant. Over the medium term the value added can be gradually increased as maintenance, repair and assembly activities are added to the basis trading function.

4.10.2 Industrial Zones

1. A low skilled labour intensive industrial zone could probably be developed successfully. This would lead to an increase in the number of garment and other assembly type products with the consequent increase in the demand for low skilled, migrant labour. However, the socio economic benefits and costs of such developments for the

state of Qatar need to be carefully weighed.

2. A special medium/high technology manufacturing zone for energy intensive industry and related activities is possible only with a very strongly focused promotion effort and plans for a series of initiatives which would include:

(i) A clear statement of industrial policy including incentives, procedures and treatment of foreign and local capital.

(ii) The development of suitable project ideas with export potential beyond the GCC (the department of Industrial Development have many project ideas in the pipeline).

(iii) The development of technical and vocational skills for effective participation of Qataris in such a project.

(iv) The provision of a range of financial services supports including venture capital and soft loans, training assistance and incentives comparable with or better than neighbouring states. (UNIDO is about to undertake a review and study of many of these points).

The need and necessity for a special industrial free zone can be reviewed when the state of Qatar takes suitable steps in the above direction.

4.10.3 Recommendations

1. The government of Qatar should proceed with a fullscale feasibility study for the development of a free trade zone.

2. The government of Qatar can review the status of an industrial free zone after the initiatives referred to above are put in place.

CHAPTER 5

PROPOSALS

5.1 Introduction

Qatar faces a relatively unique set of economic problems. It is one of the few countries in the world which does not have an employment problem. It is unusual in that most jobs are held by non nationals. As a result the majority of the population are non Qatari. Further expansion of employment opportunities unsuitable for Qataris will lead to a further inflow of migrants and exaserbate the existing population imbalance.

A number of basic products and services in the economy (some foodstuffs, electricity and health) are subsidised by the government. Further increases in the migrant population will lead to increased demands for subsidized products and services. Unless the migrant workers are making a significant value added contribution to the economy, their overall net value to the economy may be negative.

5.2 Site and Organisational Options

A legal base already exists to establish a free port at Doha (Law No. 7 - 76). There is some space in and

around the port area. However, there are a number of other locations in and around Doha and Umm Said which can also be considered. It may be that more than one site is justified or that some form of administrative free zone concept could be implemented, allowing the possibility of a series of single factory free zones.

The 1976 law also provides for the establishment of a free zone corporation. The necessity of such a corporation needs to be reviewed in the context of a full scale feasibility study. Can for example a free zone be developed as in Mauritius and Fiji under the direct administration of a ministry (finance or industry) and promoted by a national promotion agency.

Other issues which needs to be considered from an organisation viewpoint include:

(i) The ministry with overall responsibility for free zone development. If it is primarily a trade initiative, the minister responsible for trade and commerce usually takes the lead role. If it is an industrial development initiative, obviously the ministry for industry is more relevant.

(ii) The relationship between the free zone organisation and other promotional agencies within the country. Should the free zone agency be part of a wider national investment promotion agency or should it have a separate identity? There is no

simple answer to this question. In some cases in recent years (Togo and Sri Lanka) separate free zone agencies have been merged with national promotion agencies for reasons of economy and efficiency.

(iii) The role of the private sector in the development and management of the free zone or zones needs to be clarified. Should the private sector develop and manage the zone independently or in partnership with the government, or should a government agency take overall responsibility for development and management of the free zone programme?

(iv) Commercial viability. Should the free zone be developed on a commercially viable basis i.e. zone revenue covering both investment and operating costs, or should it be viewed as a "lost leader" which will generate considerable indirect benefits for the economy?

5.3 The Terms of Reference

A feasibility study for the development of a free trade zone in the state of Qatar should proceed in four phases. Phase 1 would include a review and analysis of the economic objectives of the government or Qatar and the potential activities which can be developed in the free zone which are in keeping with those objectives. This

review would be based upon

(i) An analysis of government plans and development objectives for the economy, as well as discussions with relevant government officials on the role of a free trade zone in the Qatari development process.

(iiO An examination of the developments which have taken place in other free zones in the Gulf and surrounding region and investment flows into the region.

(iii) Discussion with the Qatari private sector and others such as banks and accountants in regular contact with both Qatari and foreign investors.

(iv) Visits to key locations overseas for discussion with potential investors. (London and Hong Kong are possible venues).

On the basis of this review and analysis, it should be possible to develop a list of potential investment opportunities or sources of investment and the requirements of potential investors and their interest in and perception of Qatar.

Phase 2 would be an indepth examination of the situation in Qatar and how it matches the requirements and perceptions of potential investors as set out in Phase 1. This examination would include:

(i) An indepth examination of the transport situation

with particular emphasis on sea transport and port facilities and how facilities and services might be expanded and developed to provide an efficient low cost service for exporters.

(ii) Consideration of the various site options available for free zone development and the identification and ranking of those sites which best meet investor requirements and cost of development.

(iii) An examination of the investment incentives available in Qatar and neighbouring states and their relevance from the point of view of attracting free zone investors.

(iv) A review of existing arrangements for promoting Qatar as an investment location and the funding and organisation necessary to implement a successful promotion campaign. The experience of other countries in the Gulf and elsewhere are relevant in this context.

(v) An examination of the customs rules, regulations and procedures for importing equipment and materials duty free as well as a general review of organisation staffing and plans.

(vi) A review of the commercial support services available in Qatar with particular reference to banking, accounting and legal services and how they match investor requirements.

(vii) An analysis of the legal and organisational

options for free zone development based on (a) the experience elsewhere in the Gulf and (b) the willingness, or otherwise, of private investors to participate in free zone development.

At the end of Phase 2 it should be possible to present a series of options for the Qatari authorities on the legal framework, organisation, site development, promotion campaign, transport, finance, banking and commercial support services for their consideration.

Phase 3 - This phase would involve the development of a series of proposals based on discussions at the end of phase 2. These would include proposals on:

(i) A legal and organisational framework, including staffing and training/

(ii) Customs procedures, including staffing and training (if necessary).

(iii) Promotion, including details on target countries and sectors as well as the outline of a promotion programme.

(iv) Projections on the growth and development of the zone (or zones). Site development, including proposals on the design and layout of the site or sites.

(v) Finance, including funding for promotion.

(vi) Initiatives to improve the support services (banking, transport, education, training) as

necessary.

Phase 4 - This phase would involve an overall socio-economic assessment of the project from a national economy point of view.

APPENDIX 1

Support Facilities

1. Sites

The population density of Qatar is about 44 people per sq. kilometre. About 60% live in the capital Doha. There is plenty of land available surrounding the city for industrial or commercial development. There are presently 3 major industrial areas in Qatar.

(i) Doha industrial area (Salwa). Here light and medium scale industries and workshops are established. Infrastructure facilities are available on the estate which is about 15 km from Doha port. The estate is located south of Doha and has an area of 28 sq. km. Expansion is possible to the north west where a further 5 to 10 sq. km of land is available. The land is flat and not populated. The land is owned by the state. There are therefore no acquisition problems. Most of the road network connecting Salwa to the airport and port area is in place. There is adequate land for housing and commercial developments in the vicinity. The infrastructure cost of any development in the area is likely to be low as services are already laid on in the area.

(ii) Umm Said industrial area. Located about 40 km south of Doha, there are 63 sq. km allocated for medium and heavy industry. The estate is owned and controlled by the Qatar General Petroleum Corporation (QGPC). Housing for staff and workers is provided outside the main factory area. The infrastructure facilities are well developed. Different areas of the port are allocated to different industries such as natural gas, liquid fertiliser and steel. Container handling facilities are available but the port is under utilised. The estate is a secured area and approval has to be obtained to visit it. There are commercial and recreational facilities available closeby. As the area is already well serviced from an infrastructure viewpoint, the cost of developing a free zone at Umm Said may not be too high.

(iii) Ras Lafan. This is a new industrial area located 70 km north of Doha and with an area of 80 sq km. The development of this area has been aimed mainly at locating gas processing plants. The first unit is a 6 million ton per year LNG plant. Ras Lafan is a very secure area due to the nature of the industries involved. The port is designed to allow 130,000 DWT LNG tankers to enter. Infrastructure is being developed. The

land is owned by the government and controlled by QGPC.

2. Utilities

Qatar has well developed infrastructure facilities including water, electricity and telecommunications.

2.1 Electricity. Qatar has one of the highest per capita electricity consumptions in the world. Electricity is generated in three stations with a capacity of over 5000 million kw hours in 1992.

Contracts for the installation of another 650 MW power plant and 35 million gallon water desalination plant were signed in March 1994 to meet the increasing demand. The estimated additional power requirement by the year 2000 is 1149 MW at an annual growth rate of 9%. About 800 M US $ is needed to install the additional capacity to service this demand. Normally a new connection to a household will take one month. For trade and industry the connection delay may be longer if its in an isolated location.

2.2 Water. Most of the water is obtained from dual desalination plants. The sub-soil water from base wells is used to mix with the desalinated water before distribution.

Annual production of potable water was 18720 million gallons in 1992 out of which almost 98% was desalinated water. Water consumption by different sectors is as follows. General public 64%; government 17%; industry 11%; and commercial 8%.

2.3 Telecommunications. Qatar has a well developed modern telecommunications system. The number of telephone connections available in 1992 was 160717. The actual number of telephones installed was 105010 leaving spare capacity of 55707. International direct dialing facilities are available to 198 countries throughout the world. Telex and telefax services are also available.

Qatar recently introduced cellular telephones through satellite links and acquired the distinction of being the first country in the Gulf to do so. There are no difficulties in obtaining any type of telephone. It takes about a week to provide a connection.

2.4 Stormwater. Qatar has an average rainfall of 50 to 55 MM annually. With this small level of rain there is no need to provide stormwater discharge drains.

2.5 Sewerage. Central sewerage treatment plants have been installed in cities and towns and common sewer discharge pipes are laid. Septic tanks are also used in isolated locations. The soil is generally dry and septic tanks

can be operated successfully.

2.6 Roads. Qatar has a well developed road system. Most roads are capable of handling container and motor vehicle traffic. All the major cities are connected by a good road network. There is also good connections to Saudi Arabia and UAE.

2.7 Gas. Qatar has the world's third largest gas reserves estimated at 250 trillion cubic ft. The gas reserves are obviously sufficient for any local industrial consumption in additional to international sales. Natural gas is used as a fuel for power generation, as well as water desalination and in a number of industries at the UMM Said industrial estate.

3. International Transport

A good international transport system is a precondition for free zone development in any country.

3.1 Road Transport

Qatar is connected to Saudi Arabia and Dubai by roads. The average distances from Doha are Damam 400 km, Riyadh 560 km, Jeddah 1600 km, Kuwait 830 km, Abu Dhabi 550 km, Dubai 670 km, Muscalfe 900 km and Bahrain 450 km.

The average time taken is about 8 hours to Riyadh and Dubai.

3.2 Port Facilities and Sea Transport

The state of Qatar has 3 major ports, Doha, Umm Said and Ras Lafan. Doha is the principal commercial port. UMM Said is used mainly by heavy industry within the port area. Ras Lafan has been developed recently. The Doha port is being extended at present and a new channel of nearly 40 ft. deep is being excavated. A container terminal with two berths is being constructed. When completed it can handle 230000 TEU containers a year. At present containers are transhipped are shipped by road or sea, primarily from Dubai.

During the course of the study a wide range of views were expressed by different interest groups on the issue of shipping and port services in Qatar. Different views were expressed about whether or not Umm Said or Ras Lafan could be used for commercial traffic. There were also a number of different views on the cost and quality of commerical shipping services from Doha and the feasibility or otherwise of encouraging container services at the port.

The need for an efficient low cost sea transport service

is a key point in any successful free zone development. Any fullscale feasibility study on the subject must examine the whole issue of sea transport and port facilities in depth and determine what arrangements are necessary to support a free zone development in Qatar.

Many of the facilities at the Doha port appear to be under utilised at present. There is storage capacity for 2000 TEU's, 32 electric reafer points and 40,000 sq. metres of storage and warehousing space.

3.3 Airport

Qatar has the world's longest runway of 4750 metres in length. There is a commitment to develop Doha international airport as a major regional hub by the turn of the century. Qatar has started its own airline, Qatar airways. The regional carrier "Gulf Air" and 21 other airlines operate flights to and from Doha.

Work on the new airport infrastructure is expected to begin in 1995 with the first phase of the project being completed in 1997. This will provide a new and modern airport facility capable of handling 2 million passengers a year. A second phase is designed to include the provision of a new runway which the double the present capacity. It was anticipated that the airport would handle about 1.6 million passengers by

1995 but this target was reached in 1992. Current passenger growth rates are far exceeding forecasts.

The proposed new terminal will be equipped with 14 aircraft loading bridges and a further 6 to 12 remote aircraft stands.

Cargo throughput is projected at 36,000 tons by the year 2000. The airport handled about 28,000 tons of cargo in 1992. The terminal has a capacity to handle about 60,000 tons and is under utilised at present. There is space beside the terminal for expansion should this be necessary. About 8 cargo carriers serve Doha. There is very little export cargo. In the cargo complex there is a strong room for valuable cargo and cold storage for frozen and perishable cargo.

All the airport cargo is handled by three private agents but the authorities are considering bringing it under one authority. There is a customs clearance service available at the cargo section.

4. Labour

Qatar's population in 1992 was 532719 including expatriates. Qatari numbered about 125,000. Qataris are employed mainly in goverment jobs, trading and contracting services as well as in a number of

industries. Most of the manual jobs are filled by expatriates from Asia and North Africa.

Permission to recruit overseas workers has to be obtained from the Ministry of Interior who issue the visas. This takes about one month after the submission of details.

There is no minimum wage in force in Qatar. However, individual countries sending workers to Qatar do try and insist on minimum wages. Travel facilities to and from the work site as well as food and lodging is usually provided by the company for manual workers. The working week is 48 hrs. and holiday entitlement is 25 days annual leave.

5. Education and Training

It was not possible during the timescale of the pre-feasibility study to explore in any detail the issue of technical education and vocational training. These are key elements in the development of any advanced manufacturing activity. A number of people did comment in somewhat unfavourable terms about the quality of 3rd level education in particular in Qatar.

6. Banking

Banking services in Doha are reasonably well developed. There are no problems with exchange control. Trade finance and other forms of short term funding are readily available to suitable customers. However, medium and long term finance for development projects is not always available. The government is in the process of establishing a development bank. In addition, commercial banks have indicated a willingness to look more closely at medium term financing, including equipment leasing, if there are indications of profitable demand for such facilities. As with the transport situation, there is a need for more indepth investigations of financing facilities in the context of a fullscale feasibility study.

APPENDIX 2

TERMS OF REFERENCE

(a) Objective

The objective of the project is to provide the government of Qatar with adequate techno-economic information to enable them to take a decision on proceeding with the feasibility study for a free zone in Qatar.

(b) Output 1

A comprehensive report containing recommendations regarding the viability of a free zone in Qatar, spelling out requirements for a successful zone operation i.e. type of free zone regime, required legislation and incentives, type of management and organisational structure, infrastructure facilities and an estimate of financial requirements to set up, promote and administer the zone.

(c) Activities

1.1 Consult with the Ministries of Energy and Industry, Economy, Trade & Commerce, public

agencies concerned, Chamber of Commerce and private businesses/potential investors; review and assess the institutional environment, including incentives pertaining to industrial investment/ trade and export promotion.

1.2 Review and evaluate the range of support services which might be available to support the development of a free trade zone.

1.3 Analyze the trade flows both within the Gulf region and between the Gulf region and the rest of the world with a view to identifying possible business and trading opportunities for the proposed zone.

1.4 Review and analyze free free trade zones and related developments in other Middle East states in general, and in the Gulf Co-operation Council in particular.

1.5 Examine and review the rules and regulations of the Gulf Co-operation Council in relation to free zone development and assess the attitude of the Council towards the development of new free trade zones in the Gulf.

1.6 Outline the key requirements for the development of (a) manufacturing; (b) international trading; and (c) international service centre in Qatar.

1.7 In the light of the foregoing, evaluate the feasibility of developing (a) export manufacturing; (b) international trading; and (c)

international services activity within a free zone eontext in Qatar.

1.8 Review the laws and procedures relating to taxation, customs, foreign exchange, immigration, etc. and outline legal and administrative requirements necessary to introduce appropriate incentives to attract business to the proposed zone; recommend a suitable free zone legislative framework.

1.9 Identify possible sources and categories of investment which could be attracted to Qatar; assess potential investor interest, including eventual competition in this respect with other free zones in the region.

1.10 Identify potential sites for the development of a proposed free zone; assess the available physical infrastructure in terms of transport facilities, telecommunications, existing air-cargo and warehouse facilities and make recommendations on their adequacy.