

Part?.How to Respond to Globalization: Outlook
from Regional Perspectives : Chapter8. Anxiety
and Confricts over Economic Liberalization
Globalization in the Middle East

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CHAPTER 8

ANXIETY AND CONFLICTS OVER ECONOMIC LIBERALIZATION — GLOBALIZATION IN THE MIDDLE EAST —

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1. WARINESS ABOUT ECONOMIC EXCHANGE WITH THE UNITED STATES AND EUROPE

At the Third Ministerial Conference of the World Trade Organization (WTO) held in Seattle in December last year, Minister of Commerce Osama Faqih of Saudi Arabia told the meeting, "There are among developing countries scepticisms about the fairness of the multinational trade system of the WTO. Developing countries feel that they have not had any advantages from the multinational trade system.... The WTO is not an international organization yet."

After it applied for membership in the GATT in 1993, Saudi Arabia is still holding negotiations to acquire WTO membership. The above-mentioned remark by the Saudi Arabian Minister of Commerce showed the impatience of the Saudi Arabian government about its long waiting for its WTO membership. But at the same time, it also showed the anxiety of Middle Eastern countries about the economic globalization which, they feel, is being promoted with economically advanced countries such as the United States and European countries as the center.

A university professor of Saudi Arabia, warning against the negative effects of the GATT and WTO, said that the implementation of GATT/WTO agreement would weaken local industry in the Arab and Muslim worlds and would increase the price of imported goods. He also said that the Arab and Muslim worlds were not prepared for this agreement and had not played any effective role in discussions concerning it. This seems to show us the anxiety of intellectual leaders in Saudi Arabia about the economic globalization which is being advanced by economically advanced countries - the United States and European countries in particular.

The Middle East region is situated at the contact point of Asia, Africa and Europe and has been a strategically important region of transporta-

tion and communication. Historically, the economic exchange of the region with other regions was activated by the fact that the land and sea routes of the East-West trade crossed the Middle East and that every year a large number of pilgrims gathered at Mecca from many parts of the world.

In the course of a quantum leap of the European economies after the Industrial Revolution, the economic relations of the Mid-Eastern region with Britain and France deepened. This economic exchange, it is true, gave momentum to the economic development of some areas of the Middle East. Thus, modern industries developed at a relatively early period in Egypt through its economic exchange with European countries. Nearly 20 spinning mills were operating there in the 1820s or in the era of Muhammad Ali.

However, on the other hand, this exchange with European countries resulted in a political and economic subordination of the Mid-Eastern region. After the second half of the 19th century, many countries of the Middle East were subjected to colonial domination by Britain and France. As for the present 21 Arab countries, 20 of them experienced the British and French colonial rule. The exchange of the Middle East with European countries in the Modern Period and afterward is considered to have had a negative effect on many Mid-Eastern countries, although it brought about industrial development to some of them. Even economically developed Egypt was placed under Britain's virtual colonial rule after the 1880s.

In the Middle East, with this experience, there is a deep-rooted feeling of precaution against economic exchange with economically advanced countries - European countries and the United States in particular.

The Palestine-Israel dispute also worked in the direction of strengthening the precautions of Mid-Eastern countries against European countries and the United States, particularly the United States. During World War II, a large number of Jewish people migrated to Palestine and established their own country, Israel. Four Mid-Eastern wars were fought between Israel and Arab countries. The fact that in the course of the founding of Israel and the subsequent conflicts, Britain, and the United States took a pro-Israelite attitude resulted in strengthening the antipathy of Mid-Eastern peoples against the United States and Britain. In this situation, the Arab League decided to economically boycott Israel, and Arab countries imposed sanctions against Israel and the enterprises which had economic relations with it. The founding of the State of Israel hindered the economic exchange of the Middle East with European countries and the United States.

After World War II, many Mid-Eastern countries, which had been under colonial rule or placed under various forms of domination and influence by Britain, France and other countries, won political indepen-

dence. In this period, some countries desired to attain economic development by strengthening their relations with economically advanced countries of Europe and North America in the course of their nation-building endeavors after World War II. However many of them followed a pro-Soviet foreign policy and pushed ahead with their economic construction under an economic system different from that of the United States, Britain and France. In other words, they chose to follow a socialist line. Egypt, Algeria, Tunisia, Syria, Iraq and former South Yemen proceeded to achieve their economic construction along a socialist policy line. Furthermore, there were countries like Iran after the Islamic Revolution and Libya under Colonel Qaddafi, rejecting economic subordination to Europe and the United States, chose their own lines in charting their course of domestic economic construction, espousing Islam and other principles. Even today, Iran, Syria, Libya, Iraq, Sudan and other Mid-Eastern countries take a basically cautious attitude toward economic exchange with the United States and European countries.

In this way, the Middle-Eastern region, which had experienced colonial subordination and have had antagonisms with the United States, European and other economically advanced countries after the founding of Israel, do not simply welcome economic exchange with these economically advanced countries, and also have deep-rooted wariness about globalization, which is being promoted mainly through economic globalization.

2. MID-EASTERN COUNTRIES AND GATT & WTO

Of the Mid-Eastern countries we can find only one, that is, Turkey, in the 36-members of GATT in 1955. In the same year, eight Central and South American, six Asian and two African countries were GATT members. In 1965, three Mid-Eastern countries, Turkey, Israel and Kuwait, were GATT members out of the total 66 GATT members. In the same period, many African countries, which had achieved independence, became GATT signatories, and the number of African GATT members, excluding the Arab countries of North Africa, rose to 23 in 1965. However, there was hardly any increase in the number of Mid-Eastern GATT members, limited to only four countries, Turkey, Israel Kuwait and Egypt, out of the total number of 83, with an addition of only one country in 1975. Even in 1985, there was no change in the number of Mid-Eastern GATT members against the total number of 91 GATT members. In 1995, or the year preceding the establishment of the WTO, there was an increase in their number but it was only 10 Mid-Eastern countries out of the total 123 GATT signatories.

As for the number of Mid-Eastern WTO members in January 2000, the number is only 11 out of the total 135 members. There are 25 coun-

tries in the Middle-East, so that WTO members there account for 44 per cent of the total Mid-Eastern countries. Included among those countries which are not yet WTO members are Iran, Algeria, Syria, Libya, Saudi Arabia, Oman, Iraq, Jordan, Lebanon, Sudan and Yemen. Furthermore, as at present, Iran, Syria, Libya and Iraq have not even applied for WTO membership. It is worthy of note that there are many non-WTO members in the Middle East compared with those in Asia, Africa and Latin America. Both two regions, the Middle East and the region which formerly constituted the Soviet Union, have the large number of non-WTO members.

Globally speaking, many of the countries which are not yet WTO members are socialist or former socialist countries, which include Russia and other CIS countries, China, North Korea and others. In the Middle East, too, there are many countries which once adopted a socialist economic system, and this fact may explain one of the reasons that there are so many non-WTO members in the Middle East. However, there are also countries in the Middle East that did not adopt a socialist economic system, and this fact indicates that the question of socialist economic system alone cannot fully explain the Mid-Eastern situation but it suggests that other factors are involved in it.

3. SAUDI ARABIA AND ITS NEGOTIATION FOR THE WTO MEMBERSHIP

What problems are there in the Middle East about economic globalization? We will focus here as an example on the question of Saudi Arabia's application for WTO membership.

Saudi Arabia applied in June 1993 for membership in the GATT, the predecessor of the WTO. Immediately after its application was filed, a working party was set up in the WTO. However, actual negotiations through the working party were delayed, and it was in May 1996 after the establishment of the WTO that the first round of negotiations was held. Since then several rounds of negotiations had been held until the autumn of last year, but its membership in the WTO has not yet been realized. At present, Saudi Arabia is in an observer status in the WTO.

It was pointed out at one time in the past that one of the reasons why Saudi Arabia's accession to the WTO was delayed was related to the boycott of Israel by Arab countries. Israel, which was seated in the GATT in 1962, insists that a country desirous of membership in the WTO should discontinue discrimination against other WTO member countries, and is working on the United States on this basis. The question of Arab boycott had an effect on Saudi Arabia's acquisition of WTO membership, as it is clear from the fact that the question of Arab boycott was discussed between the United States and Saudi Arabia and between the United States

and Israel, when a WTO ministerial conference was held in Singapore in 1996.

It is economic problems rather than a political one that has been an obstacle to Saudi Arabia's acquisition of WTO membership. The *Financial Times*, dated May 30, 1997, reported to the effect that Saudi Arabia's economy was dominated by state-owned oil and chemical industries and its fledgling private sector was protected by high tariff wall and a raft of other measures, that the United States and other WTO members were asking Saudi Arabia to lower its import taxes on foreign products, open its market to foreign goods and services, and solve other problems related to intellectual property rights including copyrights, and problems concerning subsidies to agriculture, as well as those concerning its import license system. The United States and other WTO members were also asking Saudi Arabia to adopt the principle of fair trade at an early date.

Later, negotiations proceeded between Saudi Arabia and WTO member countries, and in October last year, the Secretary of Commerce William Daley of the United States visited Saudi Arabia to hold talks on various matters including the question of WTO membership. In the course of these and other negotiations, it became clear little by little what problems were posed in concrete terms.

First of all, as for the problem of high rate import taxes which had been pointed out, an agreement was reached on the unification of import taxes among GCC countries at their 20th summit meeting held in Riyadh in December last year, and it was decided that import tax rates for most of products be fixed at the rates of 5.5 percent for basic products and 7.5 percent for luxury goods, as well as duty free for some goods. As a result, the problem of rectifying high rate import taxes is in a fair way of solution.

The problems that remain to be solved concern mainly the economic system of Saudi Arabia. In Saudi Arabia, as the Basic Law of the country provides that the Kingdom of Saudi Arabia is a sovereign Arab Islamic state with Islam as its religion, and its constitution is Quran and Sunna, the country's economic system is strongly influenced by Islam. For instance, no income tax is imposed on Saudi Arabian enterprises (100 percent Saudi Arabian capital) or individuals, and instead the zakat is levied on them. Furthermore, as interest on money is prohibited by Islam in financial transactions in principle, so that there are restrictions on banking activities in Saudi Arabia, which prevent the financial activities of the foreign banks in the country.

It is pointed out that its economic system influenced by Islam has been an obstacle to its economic exchange with foreign countries. The zakat, an Islamic tax, is characterized by its low rate. Because of this, in case a foreign enterprise operates in Saudi Arabia, the tax system applied

to a foreign enterprise differs from one applied to Saudi Arabian enterprises, and as the matter stands at present, this difference is a great disadvantage to foreign enterprises. Furthermore, because of restrictions on banking activities, no foreign banking institution can open its branch office in Saudi Arabia. These examples show that the Saudi Arabia's own economic and social system may act in some cases to restrain foreign investments in Saudi Arabia and is posed as a problem related to Saudi Arabia's market opening.

Behind Saudi Arabia's desire for early acquisition of WTO membership lies its intention to expand its oil products exports. Saudi Arabia's industrial policy focuses on strengthening its petrochemical industry and expanding the export of its petrochemical products. For instance, Saudi Arabia's production capacity of ethylene, which is one of the main and basic petrochemical products, is expected to total about 5.7 million tons this year (Japan's annual output was 7.5 million tons in 1999), and a larger part of it is exported. However, European and U.S. petrochemical operators are opposed to Saudi Arabia's moves to increase its exports of petrochemical products, asserting that Saudi Arabian petrochemical products are unfairly competitive as their production is based on the supply of low-cost petro-gas and other hydrocarbon materials. It is because of this that Saudi Arabia desires to broaden the channels of its petrochemical export through its negotiations for adhering the WTO membership.

Saudi Arabia's public finance is such that its tax revenue is extremely low because it cannot be based on income tax on Saudis and Saudi private enterprises and as a result its state revenue centers on its oil revenue. However, it is difficult for Saudi Arabia to boost its production and export of crude oil because of the production ceiling imposed by the OPEC, and actually its crude oil production has been on the decline in recent years due to international agreements on cooperative reduction in oil output such as the one imposed by the OPEC. In this situation, in consideration of its future state finance, Saudi Arabia desires to earn more revenue by exporting oil in the form of petrochemical products. Internally, there is concern expressed by private industries and farmers about their being exposed to import goods when the country joins the WTO. However, the Saudi Arabian government, which regards it as its most essential task to secure oil revenue in the future, is pushing ahead with its negotiations with the WTO, while persuading industrial circles and farmers into accepting its policy.

In this way, Saudi Arabia's membership in the WTO is considered to play an important role for its economy and future state finance. However, it has become clear in the course of the negotiations that there is a wide gap between the economic system of Saudi Arabia which is influenced by the economic principle of Islam and the economic system of the United

States, European countries and other economically advanced countries and that this gap is something that cannot be bridged easily. Saudi Arabia is not in a position to easily compromise on its institutional question.

It is true that Saudi Arabia represents an extreme case in some respects, but this case shows the fact that the globalization of economy not only entails an increase in trade and investment but also it works as a lever to influence the social system and culture of a country. In the Mid-Eastern countries, which are historically cautious about the United States and European countries and which have a culture different from those of the United States and European countries as a background to their economic systems, the globalization of economy will proceed while causing various problems and conflicts.

4. ECONOMIC RELATIONS WITH EUROPE

There are problems on the part of European countries, too. They fail to smoothly develop their economic relations with the Middle East. In this connection we should point out the reasons why European countries, particularly EU countries, have so far failed to develop their economic relations with Mid-Eastern countries.

In discussing the question of trade with and investment in Mid-Eastern countries, we expect a leading role to be played by the European countries which are geographically close to the Middle East and which are economically advanced. However, European countries have their own "developing areas" within their own region. In the past, they were the countries of the Iberian Peninsula and Italy, and in the 1990s, East European countries of the former Soviet bloc newly emerged as such areas. As is clear from the fact that Germany is making large investments in former East Germany, Germany and other economically developed countries of Europe are interested in making investments in such "developing areas" within the European region, so that these European countries find it difficult to make sufficient investments in Mid-Eastern countries. These "developing areas" of Europe are also rivals to Mid-Eastern countries in trade. Furthermore, there are trade conflicts, such as those over aluminum and cotton goods export, between Mid-Eastern countries and the EU. Thus, the trade relations of Mid-Eastern countries with Europe have not developed smoothly.

In this situation, Mid-Eastern countries cannot expect to receive so much benefit from economic globalization as it is advertised. Because of this, there are growing moves among Mid-Eastern, particularly Arab countries, to counter the internationalization of economy by strengthening economic exchange within the Mid-Eastern region.

The start of the Arab free trade zone on Jan. 1, 1998, with the Arab

League as the center, is expected to further promote economic exchange among Arab countries. The Arab free trade zone, whose establishment was decided by the Arab League in 1997, stipulates that the Arab countries which participate in it should lower their import taxes by 10 percent every year over a period of 10 years. As of 1998, it was participated in by 18 countries. These Arab countries account for 92 percent of the total trade turnover of all Arab countries, so that the Arab free trade zone can have a far-reaching influence on trade, investment and technological exchange among the Arab countries.

However, as the matter stands at present, this and other attempts to strengthen economic exchange among Arab countries, are confined mainly to trade in primary goods and light industrial products including farm goods, processed foodstuff and textiles, and investments by Arab countries are directed principally toward hotel business and tourism and also toward real estate. As such, they contribute little to industrialization, which is the main purpose of the economic development in Arab countries. After all, economic exchange with the United States and economically advanced European countries, as well as with economically advanced countries in other parts of the world, will be necessary for attaining industrialization. However, there are diverse problems involved in this, including the fact that the Middle East is strongly cautious about economic exchange with economically advanced countries. It is the future task of Mid-Eastern countries how to overcome these problems and promote economic exchange with advanced countries.