

The Impact of the World Trade Organization

**Agreements and the Countries
of the Gulf Council Cooperation**

Talal Ibn Abdul Aziz Al Saud

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*In the Name of Allah,
the Compassionate, the Merciful*

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CONTENTS

- Forewder	7
- Introduction	11
- A Comprehensive View of the New International Economic Order Within the Framework of the Agreements GATT and the World Trade Organization	15
- Arab Countries and the World Trade Organization: The Balance of Opporunities and Risks	26
- Countries of the Gulf Cooperation Council and the Worled Trade Organization Agreements	35
- Challenges Facing Countries of the Gulf Cooperation Council: Petrochemical Exports and the - Customs Union	43
- Conclusion	57

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FOREWORD

Upon reading the article by His Royal Highness Prince Talal Bin Abdul-Aziz Al Saud published in the “Al-sharq Al-Awsat” newspaper on 19/06/2001, I was impressed by the fullness of the wide-ranging vision displayed in it. It reflects an exceptional ability by his Highness to explain and clarify the most complex issues dealt with in the World Trade Organization (W.T.O), a much talked about institution, not only among academics but also in the media and the general public because of its perceived effects on international trade and its inevitable implications on Developing, Arab, and the Gulf Countries.

The Center of Excellence in Management affiliated with the College of Business Administration at Kuwait University has by that time, (in July 2001) created the “World Trade Organization Unit” (W.T.O.U). The College has honored my person by appointing me as the chairman of the Unit. Reading the article inspired me to disseminate the highly evolved vision by his Highness and make it the pioneering output of the Unit.

After discussions with the University administration, and consultations with His Excellency Dr Yousef Hamad Al-Ibrahim, Minister of Finance, Minister of Planning, and Minister of Administration Development Affairs, the idea was warmly embraced by all parties. Indeed, the University administration did issue an official invitation to His Royal Highness Prince Talal Bin Abdul-Aziz Al-Saud to present a public lecture on the impact of the W.T.O on Arab Gulf Countries on November 6,2001, at the Kuwaiti Chamber of Commerce & Industry.

Another objective of the lecture was to benefit from his Highness' ideas. These came to complement the Units objectives and to facilitate setting a working strategy for it, as well as to reinforce the mutual interest in the development of national human resources in the pursuit of sustainable development.

As for the content of the lecture, and in a very lucid style, the lecture covered a comprehensive historical background on the creation of the institution, its general implications in terms of liber-

ating international trade, and issues pertaining to Arab and Gulf countries. The lecture comprised four main sections. The first dealt with the global vision of the new World economy in the context of the multilateral GATT agreements and the birth of the WTO soon after. It was intended as a quick and simplified introduction to the second section of the lecture on opportunities and challenges likely to face the Arab countries in general. The third section focused on the implications of the GATT and WTO on Gulf Cooperation Council Countries in a broad sense, leaving details for the experts in the field. The fourth section was more of an outcome of the previous part, providing a comprehensive review of the challenges facing the Gulf Cooperation Council Countries and the mechanisms to face-up to them.

As the vision and analysis presented in the lecture were in total conformity with the directions and objectives of the Unit, the people in charge of the organization were able to put together a set of recommendations that would serve as a major pil-

lar in the strategic work plan of the Unit. In addition, and as a result of this workshop, His Royal Highness prince Talal Bin Abdul-Aziz Al-Saud, has officially accepted to become Honorary President of the Unit (effective November 25, 2001), which reflects his unbounded support for the Unit's objectives.

At the initiative of His H.R.H private library in Riyadh, and with the cooperation of the W.T.O Unit, it was decided to publish the lecture in this booklet with the intention to disseminate the highly evolved vision contained in the lecture and allow readers from the Arab and Gulf countries to benefit from it. This booklet also represents a pioneering product of the cooperation between his Highness private library and W.T.O Unit.

May God guide us to what is best for all..

Dr Ahmad Mouneer Najjar

Supervisor of the W.T.O Unit

Kuwait University

Introduction

I would like to start my address by expressing my thanks to the brothers and sisters for their kind invitations to participate in this distinguished scholarly gathering. Special thanks are due to His Excellency Dr. Yusuf Hamad Al-Ibrahim, Minister of Finance, Minister of planning and Minister of State for Administrative Development Affairs; His Excellency Dr. Musaid Rashed Al-Harun, Minister of Education and Higher Education; and to Dr. Fayza Muhammad Al-Khurafy, President of Kuwait University.

I would like also to thank the Centre of Excellence in Management at the College of Business Administration, Kuwait University which is appropriately called so for its interest in issues challenging our nation; its efforts in this area are truly commendable and praiseworthy.

The truth is that I did not hesitate for a moment before accepting this invitation to speak on "the

Impact of the World Trade Organization Agreements on Countries of the Gulf Cooperation Council" for two reasons :

- (i) the first is my personal interest in this subject; an interest that may be well-known to some of the audience here;
- (ii) the second is my deep belief that the GATT and the World Trade Organization Agreements represent the principal challenge facing the Arab economies in the future. Moreover, the challenge represented in these agreements is but a part of much wider set of challenges all concerned with the way we manage to mold our international relations, with all their political, economic and cultural aspects, with the outside world in the era of globalization.

I am truly convinced that the present workshop in which I have the honor to participate today, is a step in the right direction in addressing these challenges in a scientific way and based on objective

grounds, clarifying benefits and gains, while warning against risks and losses.

Kindly make note that I say that GATT and the World Trade Organization represent a challenge, not enemies, nor legendary beasts on the verge of attacking and devouring us, as some people are trying to make us believe. A challenge is supposed to sharpen initiatives and to urge our will to face it. An enemy is surely fought against, or at least shunned. In a challenge, opportunities and risk are always involved, advantages as well as disadvantages, and our talent is confirmed by our attempt to maximize the opportunities and minimize the risks, and reaping the advantages and evading losses. As for an enemy it is a pure evil of which no benefit is to be expected but only net losses.

Accordingly, GATT and the World Trade Organization are challenges and not enemies. For they involve risks but at the same time opportunities and advantages. Our meeting today is but a tacit recognition of this fact.

For we are here in order to assess in a national way the aggregated advantages and disadvantages involved with joining the World Trade Organization, as well as to seek ways of maximization of benefits expected from the organization resulting from strengthening our negotiating positions, and minimizing losses, if any, that may result from joining.

As I was arranging my thoughts on the subject of the "Impact of the World Trade Organization Agreements on the Countries of the Gulf Cooperation Council", I realized that it could not be handled but within its wider framework which enables us to see the picture as a whole.

Therefore, I have decided to tackle four main points in my speech which I consider crucial for a proper understanding of our subject. These points are:

First: A comprehensive view of the new international economic order within the framework of the agreements of GATT and the World Trade Organization;

Second: Arab Countries and the World Trade Organization: The balance of opportunities and risks;

Third: GATT and the Countries of the Gulf Cooperation Council : A comprehensive view;

Fourth: Challenges facing the countries of the Gulf Cooperation Council and the way to deal with them.

First: A Comprehensive View of the New International Economic Order Within the framework of the Agreements of GATT and the World Trade Organization.

GATT, as you know, is the abbreviation of the English term "the General Agreement on Tariffs and Trade". It is an international treaty that regulates trade exchanges between countries that agree to join it.

The number of member countries rose from 32 at the time of the treaty's endorsement in 1947 to

118 countries at the beginning of 1994. This number then rose sharply during the last few years especially after the establishment of the World Trade Organization in 1995, reaching 142 by July 26, 2001.

The most important achievement of GATT is the organization of consecutive, difficult and lengthy rounds of negotiations on tariffs as well as rules and procedures governing world trade among countries accepting to join the treaty.

The number of these rounds reached eight, including the last one that ended its meetings on December 15, 1993, which is known as the Uruguay Round. One result of this round is the transformation of GATT into an international organization with a legal status in 1995: the World Trade Organization. My motivation for reminding you of these historical facts is to help distinguish between GATT and WTO and the current process of globalization. It is obvious that GATT came into being more than half a century ago, that is not a short time before globalization.

With the establishment of the World Trade Organization, the cornerstones of the international economic order arising in the wake of the Second World War have been completed. For in 1944, according to the Bretton Woods Agreement, the International Monetary Fund and the World Bank both came into being to oversee issues concerning the international monetary and financial systems as well as development. As for issues dealing with world trade, they were put aside until 1995 when the triangle was completed by the establishment of the World Trade Organization whose task was the development and liberalization of trade at the international level. In fact, the delay was mainly due to the refusal of the Great Powers, with the United States in the lead, to adopt the results of the Havana negotiations of 1947, which led to the creation of GATT. They were apprehensive to the transformation of the GATT treaty into an international organization with a legal status undermining state sovereignty in areas of foreign trade, which is a highly sensitive issue.

At the foundation of GATT is the assumption that the removal of obstacles in the way of international trade leads to the specialization of each country in the production of goods in which it enjoys comparative advantage. This, in turn, will lead to improved labor division on the international scale, and to a general increase in living standards.

Thus the aim of multilateral trade negotiations rounds with the framework of GATT had been to achieve consecutive cuts in imposts and tariffs and to remove them altogether on certain goods in order to encourage growth of international trade by doing away with obstacles and barriers in its way.

It may, therefore, be said that the functions of GATT, which now has become the World Trade Organization are summed up in three main points:

- (i) to supervise the application of principles, rules and procedures included in agreements dealing with the organization of foreign trade between the contractual parties;

- (ii) to organize multilateral trade rounds aiming at achieving higher levels of trade liberalization, and securing more transparency and predictability for trade relations between states, thus reducing possibility of disputes;
- (iii) to settle disputes between countries in matters relating to their trade relations, acting therefore as "an international tribunal" in lawsuits by a contractual party in GATT against one or more other contractual parties.

In this brief overview aiming at shedding some light on GATT'S' role in the international economic order, we have to mention, however briefly, some basic principles of the GATT agreement.

These principles, in fact had many times been the object of misconcepts and misinterpretations on the part of those accustomed to focus on the empty half of the glass. They had also been misused by people making show of high sounding principles in order to serve their own selfish ends. And there are many such people in the advanced

countries. We must therefore, cite some of the leading principles of the World Trade Organization, in the belief that the right comprehension of these principles is the first step towards securing the interests and benefit of Arab countries in general, and Gulf countries in particular, as well as the sole guarantee for confronting those advanced industrial countries deviating from such principles.

In the first place, there is a widespread delusion to the effect that joining the World Trade Organization involves the immediate abolition on the part of the new member country of the barriers it imposes on trade. This is far from being the truth. Joining the organization does not require, but a pledge to gradually do away with such barriers through multilateral negotiations, and according to what the country believes to be its national interests. When a country abolishes these barriers on trade, it offers concessions, in GATT terms, on the understanding that it is obtaining similar concessions from other countries.

The basic obligation here is the country's commitment to abide by the principle of transparency. This means that tariffs should be the only means of protection, and that non-tariff barriers, such as quantitative restrictions, should not be resorted to except in special cases and within processes defined in the Treaty.

Another important and basic principle in the Treaties of both GATT and the World Trade Organization, which some consider the foundation of these Treaties, is that of the most favoured-nation. This means that any trade preferential treatment allowed by one country to another (even if the latter is not a member of GATT) applies automatically and unconditionally to all states that are members of the World Trade Organization. There is one basic exception to this rule, which concerns regional economic arrangements (such as the free-trade regions). But we shall deal later in this lecture, and in some details, with this exception.

Other principles governing GATT could be summed up within a national treatment principle, which stipulates similar treatment for imported and national commodities in terms of taxes, tariffs, legislation etc, as soon as imported goods leave the customs zone.

There is also the principle of "non-discrimination" which calls for equal treatment for a commodity imported from one country, and the same commodity imported from another. There is also the Anti-Dumping principle firmly established in the early GATT agreements of 1947, which prevents contractual parties, i.e. members of the treaty from exporting their commodities at prices lower than their levels in their own countries, if such a practice is causing great harm to domestic producers in the importing countries.

Another principle is the one against subsidizing exports, especially if such subsidies take the form of grants that impair the interest of other contractual parties, both importers and exporters as well.

Finally, there is the principle of preferential and more favourable treatment of Developing Countries, adopted by the GATT Treaty in 1965 and mentioned in the forth part of The treaty dealing with the "trade and development" issue. This part of the Treaty exempts Developing Countries from providing full restitution to all concessions and tariff cuts made by advanced industrial countries.

The Tokyo Round of multilateral negotiations (1973-1979) added what is known as the "enabling clause". This means that contractual parties may allow Developing Countries to have recourse to special measures in order to promote and develop their trade, and urge them to participate more widely in international commerce.

Through this clause, Developing Countries may obtain, from-advanced countries, trade advantages not enjoyed by other contractual parties, which means that those advantages are deemed exceptions to the most-favoured-nation rule.

Until now, this has been a general background presentation of the World Trade Organization, its principles and the theoretical philosophy at its basis. My motivation in offering it at the beginning of this lecture is to help identify the new international economic order frontier with which we have to deal with, whether we like or not.

The principle underlying GATT and the World Trade Organization embodies quite a few positive aspects. It cannot be doubted that the principles of transparency, national treatment, and non-discrimination open up a wider scope for the development of comparative advantage and concentration on the production of export commodities. For competition urges improvement and quality amelioration, while taking refuge behind the walls of protection and subsidies, as experience proved in many of our Arab countries, will result in nothing but neglect, absence of competition, and failure to progress under the umbrella

of protection. The truth which we all have to face is that the Arab producer has come to be satisfied with those walls provided by the policy of protection and never considered them as a temporary exceptional measure aiming primarily at building-up a strong national industry. Arab producers have taken those walls for granted and as permanent measures, thinking: "why should we try to improve production as long as local markets are guaranteed by protection, and profit is backed by subsidies ?".

This does not mean that the principles of the World Trade Organization lead to unalloyed benefits. In fact, some of them represent in some cases what could be considered unjust to developing countries, Arab countries included. Some of those principles have certainly been exploited by big powers and giant economic blocks in ways contrary to the spirit of the WTO, its foundations and to the special circumstances of developing countries.

Second :Arab Countries and the World Trade organization : the Balance of Opportunities and Risks.

Needless to say, the Arab economy will undoubtedly be greatly affected by the GATT and WTO treaties. We are referring here to Arab economy as a whole, which does not mean that the expected effects will be the same from one region to another, and from one country to another.

When we say that the Arab economy will be considerably affected by the World Trade Organization this is but a reflexion of a set of simple facts. The most important of which is the great reliance in the Arab World on foreign trade, both as regards to exports and imports. In some Arab countries, foreign trade exceeds in size half of domestic product. Industrial production, represents 75% of Arab imports, while Arab exports are mainly raw materials, the most important of which is oil.

These are in brief the features of Arab foreign trade showing to what extent the new order of world trade can affect a region that relies heavily on foreign trade.

There is no doubt that many issues important to Arab countries have remained outside the focus of interest of the GATT agreement for simply because of lack of interest.

The question here is why Arab countries in particular, and developing countries in general, did not defend their rights as they relate to their commodities and products, for which they enjoy comparative advantages, to enter markets of advanced countries. Where had the developing countries been including Arab countries as consecutive trade negotiations were taking place?

In reality, we have to face the fact that, for a long time, we kept to the fringes of those negotiations, as if they concerned other parties, and as if they would not, sooner or later affect our interest and our trade.

The Basic philosophy of the World Trade Organization is that of economic liberalism based on specialization and the principle of comparative advantage. In most Arab countries, and for a long time, we were against such a philosophy, and refused to adopt it, relying instead on a policy of protection and import substitution, embracing ambitious but unpractical slogans such as "from the needle to the rocket", offering too many subsidies, and failing to follow the example of the East Asian countries known as the Tigers which had been concentrating efforts on setting-up export oriented industries.

The foremost result of pursuing such policies is that we were kept on the margin of the international economic order of which GATT represented one of its most important cornerstones.

When we awoke to speedy changes in the world, and in the international economy, which has become increasingly interdependent in recent years, we realized that we have lost a great deal of our competitive advantages. The problem is that

after the end of the Uruguay Round and the establishment of the World Trade Organization, the danger was no longer just limited to a threat to our markets in other countries of the world, due to competition by better and cheaper commodities relying on more modern techniques of advertising and marketing. The real danger lays in the gradual losses of our own home markets due to the general application of the principles of national treatment, non-discrimination and the most-favoured-nation, as well as the gradual erosion of the generally applied preferential system which was for us a last bastion protecting us from a fierce world competition.

For example, according to the last agreements reached at the Uruguay Round, a pledge was made to reduce tariffs imposed on imports of agricultural products by 36% in the case of advanced countries, and 24% in the case of developing countries (Arab countries included), with the reduction process to be completed within six years in the case of advanced countries, and within ten

years in the case of developing countries... Have we prepared ourselves to face-up to such a challenge?

On the other hand, and in reference to the subject of agriculture and the World Trade Organization's impact on it, many experts expect the liberalization of agricultural productions to cause rises in food prices. For on the one hand, the reduction of local subsidies (by 20% within six years in the case of Advanced Countries, and 13.3% within ten years in the case of Developing Countries) will lead to the reduction of farmers' income which may be leading to supply reduction of agricultural production. On the other hand, tariff reduction will result in cutbacks in prices of agricultural goods, which will lead to demand increases confirming a future trend. All this will add up to the food bill in Arab countries, which are in general food importers, to rise.

Again I ask: **are we well-prepared to face-up to this situation ?**

In order to illustrate the points I have tried to explain at the beginning of my speech, let me tell you that even in regard to this aspect, i.e. agricultural production price increases that many may consider as one of the direct negative effects on us for which the World Trade organization will be held responsible, this aspect could be seen, if we look at the full half of the half-full glass as an indirect advantage.

How come ?

As the proverb goes, "Benefit may result from the harmful". The expected rise in prices of imported agricultural goods, and the probable shrinking of food subsidies could urge Arab countries to improve their agricultural productivity and expand this kind of production in general. This would depend on adopting policies that would ensure benefits accruing to local farmers from rising prices, which will, in turn, encourage them to develop and improve their production methods.

This applies to industry as well. For trade liberalizing in many sectors will enhance competition, and thus prompt local industries to raise the standard of quality and production. Again this, depends on pursuing policies that would help achieve this objective. Such policies would ensure that competitiveness will be an incentive to develop and improve national industries, instead of finishing there off.

These, indeed, are real risks, but not unavoidable. Member countries of the World Trade Organization are in a position to avoid them once they decide on an honest and serious implementation of the Uruguay agreements. As for the advantages that may make up for those losses, or even exceed them, they depend on the will of Arab countries to exploit them and take advantage of them.

If we are to evaluate the new world trade order from the standpoint of the expected impact on some Arab economies, we can, generally speaking, say that those countries that are wholly de-

pendent on food imports, (which is the case with most Arab countries), will have to bear a heavier burden trying to secure their food needs. According to some estimates, the cost of importing foodstuff by the Arab Countries as a whole may rise from its present level, i.e. 11.3 billion dollars, to about 15 billion dollars annually.

We should also remember that there is the possibility of benefitting from the price rise of some other products exported by some Arab countries, such as vegetables and fruits. Some countries, such as Egypt and Morocco, will also benefit thanks to their comparative advantages in producing textiles and clothes.

On the other hand, Arab countries will certainly not be in an advantageous position as regards to agreements on intellectual property rights protection and agreements dealing with the liberalization of services. For the cost of securing the needed technology, manufacturing rights as well as trademarks will all rise.

As for the liberalization of services, importers of foreign services will compete increasingly with local producers of such services in the national markets. Still, as I try to concentrate in my lecture on this issue, I can see a way out for some Arab countries to benefit from certain aspects of the protection of intellectual property rights which is viewed as an impending danger and definite evil for some Arab countries, as the protection of intellectual property rights will benefit authors and artists. At the same time, some other countries will benefit from the liberalization of services, especially in the context of tourism.

Third: Countries of the Gulf Cooperation Council and the World Trade Organization Agreements:

The six countries of the Gulf Cooperation Council enjoy an excellent, yet at the same time strange position in the World economy. They produce what they do not consume; a fact that provides them with a great capacity for exporting. Moreover, the main commodity they export is oil, which is vital for world economy. On the other hand, the countries of the Gulf cooperation Council consume what they do not produce. This puts them in a position of reliance on foreign trade for securing their needs of many vital goods, both capital goods with an impact on industrial production and development as a whole, and important consumer goods such as foodstuffs.

Countries of the Gulf Cooperation Council are therefore in a position that constrains them to pay attention to changes occurring in the international economic arena, as these changes, (among the

most important of which is, of course, the establishment of the World Trade Organization), directly affect them and have a firsthand impact on their vital interests. This may be due to the fact that oil, the main commodity in the countries of the Cooperation Council, is out of the GATT's interests.

Furthermore, demand on oil may increase with the rise in demand for petrochemicals caused by a 30% reduction in tariffs. We shall be tackling this point later.

We may also ascribe this gain to the fact that crude oil exports, which are totally effected by Cooperation Council countries, are entering markets of advanced countries either exempt from customs duties or charged much reduced rates.

All these are indications that the picture, especially as related to countries of the Gulf Cooperation Council, is not as gloomy as some are trying to make us believe. For these countries enjoy advantages that may enable them to improve their

position within the framework of the new order of international trade.

It is not difficult to identify the prime issue as to the relations between the countries of the Gulf Cooperation Council and the World Trade Organization. It is a well-known fact that the main commodity which these countries enjoy a natural comparative advantage in its extraction and production, is oil which had not been discussed at the GATT's successive rounds of trade negotiations.

Many factors are behind the fact that oil had not been included within the framework of those negotiations, some pertaining to these countries themselves, some to oil importing countries, and others to oil as a commodity that has a special status in the World economy.

Perhaps one of the most important of these reasons may well be that the Cooperation Council countries joined GATT only not too long ago, while some are in the process of joining it like the Kingdom of Saudi Arabia.

To stay away from the World Trade Organization, and outside the framework of GATT is surely a luxury that not many countries can afford. A country staying away from the Organization would not be able to enjoy the privileges provided to member countries, in accordance only with the principles of the most-favoured-nations, national treatment, non-discrimination and other GATT principles. At the same time, a non-member country that is not bound by the treaties' obligations would not be able to evade their negative impacts.

It may also be said that the intention of turning GATT into a place for negotiations between oil producers and oil consumers never occurred to the minds of the oil-producing countries. Instead, they had tried to enhance their negotiating position through the creation of OPEC in 1961. OPEC became the general framework through which these countries acted in the international economy arena, by being blind to the fact that the improvement of oil's status is not achieved solely by preserving the level of its prices,(which is the function of OPEC)

but also by trying to remove obstacles facing oil exports such as restrictions and taxes imposed in markets of importing countries, (which is one of GATT's tasks). The other reason for the non-involvement of oil in trade negotiations is the absence from such negotiations of oil countries, either because they were not members of GATT, or because they did not attach enough importance to those negotiations.

Those were the factors that kept oil outside the areas of GATT's interests, and allowed advanced countries to follow a policy of exerting downward pressure on prices of oil any time they are on the increase, through imposing taxes that would spare individual consumers the impact of slashed prices, and prevent increases in demand or in prices.

Take for example the carbon tax imposed by European countries on petrochemical imports. Though this can be justified on environmental considerations, the tax, in the final analysis, is unjust to producing countries as it makes them pay

the bill for cleaning pollution of the environment that advanced countries were responsible for in the first place.

It is important here to emphasize that the future general trend is in favor of Arab oil. Estimates indicate that overall reserves will be very much concentrated in OPEC countries, including Arab Gulf states.

On the other hand, the liberalization of trade in petrochemicals, according to the outcome of the Uruguay Round, will result in a rise in demand for oil, which is at the basis and foundation of that industry.

From all this, we can see that the prospects for countries of the Gulf Cooperation Council are not so gloomy. On the contrary, it may be said that future prospects for them are much brighter than those in many developing countries, provided they make good use of the opportunities offered especially in relation to the petrochemical industry.

Overall, it is clear that joining the World Trade Organization will not necessitate structural adjustments in the economic structures of countries of the Gulf Cooperation Council, an advantage not available to many Developing Countries. In fact, the economic systems of the countries of the Cooperation Council have been adopting liberal economic principles, which will make it easier for them to integrate within the world economic order, and to adapt to the rules of the World Trade Organization without having to reform their financial and monetary structures as needed in many Developing Countries. This advantage should make countries of the Council more eager to integrate within the new trade system, and less apprehensive about adopting its rules.

Some of us, and I was one are fearful of the impact of joining the World Trade Organization on the ground of the ability of the Gulf States to preserve their values and traditions at home. One misconception is that the Organization forces countries to open-up their markets to commodities,

which may be prohibited by national legislations, as the case with alcoholic drinks. I researched the subject during my visit to the Organization's headquarters in Geneva on May 9, 2001, where I had conversations with its Director-General and some of his top assistants. I had been assured that the GATT agreements are clear about this point. Article 20 of the GATT agreement allows any party to resort to any necessary measures for the protection of public morals, health or life of individuals, animals and plants, national heritage or historical monuments, etc.

I do not think that the unambiguous text of this article could be interpreted or circumvented in such a way to reflect a danger on public morals and religious values in the Gulf Cooperation Council countries. And there is no better proof than the state of Kuwait, which was the first Gulf state to join GATT, and yet was not coerced to open up its markets to commodities clashing with public morals or religious values.

Forth: Challenges Facing Countries of the Gulf Cooperation Council: Petrochemical Exports and the Customs Union

As stated in the previous section, demand on Arab oil is expected to rise as a result of the industrial expansion that the World Trade Organization's agreements will lead to, as well as the expansion of the petrochemical industry upon the removal of tariff constraints by 30% to 42% and its inclusion in the GATT system.

Yet, countries of the Gulf Cooperation Council face, at the same time, several challenges that may reduce the potential gains from the rise of demand on oil. One of the most important of these challenges is what has come to be known as the "Carbon Tax" to which we have already referred and which is imposed by countries of the European Union on oil exports on the ground of protecting the environment.

It happened that the European Commission, (now the European Union), once presented the

Common Council with a number of proposals aiming at the stabilization of carbon dioxide emissions by the year 2005. One of the most important of those proposals was to levy a tax on environment-polluting energies, with oil being at the top of the list. This, in turn, caused many oil exporting countries, with the Arab states in the lead, to protest, considering the proposal as highly unfair to their interests. For taxes levied by the European Union on oil imports are already too high and need not be increased on the pretext of environment protection.

What is important to mention here is that the carbon tax issue has not been settled yet. There are many who oppose it, not only among exporting countries, but also among importing countries as well. The European petrochemical industry, for example, has opposed the tax on the ground that it undermines its comparative advantage. Leaders of this industry admit that excessive taxes levied on oil and its products by the European Union, even without including the carbon tax, have undermined

the comparative advantage of the petrochemical industry in Europe, bringing it down to third place behind its counterparts in the countries of the Gulf Cooperation Council and the United States.

A short anecdote may help illustrate the relationship between environment and trade:

In the Equatorial eastern regions of the Pacific Ocean, large stocks of tuna fish swim side by side with group of small dolphins. In catching tuna fish a special kind of fishing nets are used. But sometimes some dolphins are caught in the nets and are likely to die if not released. Domestic American standards specify measures to be followed while fishing tuna that would safeguard the lives of dolphins at the same time. American authorities have made it clear that a country unable to prove that it adheres to those standards while catching tuna fish is liable to having its tuna exports boycotted by the United States of America.

Mexico has been the country most affected by this American policy. Its exports of tuna fish were banned from entering American markets. A formal complaint was presented by Mexico in 1991 to the Dispute settlement Committee of the World Trade Organization, supported by a number of countries playing intermediary role in this issue, such as Italy, Japan, Spain and France.

At the headquarters of the World Trade Organization in Geneva, the Dispute Settlement Committee reached a clear verdict in this regard in September 1991. It was ruled that the United States of America had no right to boycott Mexican exports of tuna fish on the ground that Mexican practices in catching tuna did not correspond to American domestic standards in this regard.

On this basis, the rulings of GATT would not allow a country to take trading measures aiming at forcing other countries to abide by its domestic laws, even if these measures are adopted in order to protect animal health or declining natural resources.

This story provides a good example for the stand that could be taken by countries of the Gulf Cooperation Council in talks with the European Union Countries concerning the carbon tax. In my opinion, the ideal mode of address should therefore be: "Yes, we believe in your plea for the protection of environment. Nevertheless, we do not see any reason for this being achieved at our expense. The more so as we had not been responsible for the deterioration of the world environmental standard, for which you yourselves have responsible for".

There are means other than the imposition of the carbon tax to protecting the environment from carbon dioxide emissions. Furthermore, countries of the Gulf Cooperation Council have to pay more attention to the GATT agreement rulings in this connection, and learn how to approach the Dispute settlement body, as in the previous story, in case their interest are threatened, or if they are subject to unfair practices contrary to the spirit of the World Trade Organization. This necessitates pri-

marily the provision of human cadres capable of dealing with this complicated economic system, and trained to take advantage to the utmost of its merits and exceptions.

I take this opportunity to mention that the developing countries members of the Trade Organization have recently established a center of their own. It is independent of the Trade Organization to help developing countries defend their rights at the Disputes settlement Body, train technical cadres, and advise them as regards to their rights and obligations. We have to rush and join this Center, which is now consisting of 42 Developing Countries including, Egypt, Jordan, Morocco and Tunisia. Information on this Center can be obtained through the Internet. The name is "Advisory Center on WTO Law" (ACWL).

We now move to the subject of petrochemicals, which I consider the prime opportunity for the countries of the Gulf Cooperation Council in the periods ahead.

The petrochemical industry is one of those industries in which countries of the Gulf Cooperation Council enjoy an enormous comparative advantage thanks to the abundance of natural resources necessary for this industry, and the availability of required capital.

To focus on petrochemical industries and to help develop them, the Gulf Cooperation Council countries are well in line with new developments in the world economy which made it necessary for each country to identify industries in which it enjoys a comparative advantage, develop and upgrade them in order to enhance its competitive abilities in world markets. Moreover, world trends indicate also a shrinking in the importance of raw materials in the world economy. The real advantage for a country today is not to have raw materials or be geographically near them. The structural advantage is technical competence. Accordingly, the main component of the added value of any commodity now pertains to technology and not to raw materials or cheap labor. Thus we came to realize the im-

portance of countries of the Gulf Cooperation Council turning in the periods ahead to the petrochemical industry. This will not only sustain their opportunities in trading with the outside world, but will also be in line with basic trends in the new international economic order.

Investment in petrochemical sectors in the countries of the Gulf Cooperation Council is one of the most advantageous investments. There are two reasons for this :

- (i) Petrochemicals are essential and indispensable commodities in world markets.
- (ii) Demand on petrochemicals will continue to increase as we have already illustrated, thanks to petrochemicals' inclusion within the GATT framework which will lead to the reduction of tariffs on import by industrial countries at rates ranging between 32% and 42% compared to tariffs levied before the Uruguay Round.

But, as we have mentioned, as regards to oil exports, there are certain risks threatening potential

benefits for countries of the Gulf Cooperation Council from exports of petrochemical products.

A prominent risk is the adoption of dumping against petrochemical exports by countries of the Gulf Cooperation Council on the ground that Arab petrochemicals are being sold in export markets at prices lower than those in their national markets, a practice considered by GATT as dumping which is forbidden.

In many cases, facing such probable risks depends on the ability of countries of the Gulf Cooperation Council to benefit from the stipulations and rules of the World Trade Organization, to coordinate their negotiatory positions, their efforts exerted to enhance their bargaining skills and approaching, when necessary, the Dispute settlement Body affiliated with the Organization.

In fact, progress made in the field of the petrochemical industry by the late seventies of the 20th century in countries of the Gulf Cooperation

Council is unmistakable and undeniable. The Arab production capacity grew from about half a million tons at the early eighties to about 15.2 million tons in 1992 in around 151 projects. Yet, we are only at the beginning of the road. Countries of the Gulf Cooperation Council are still in need for coordination of their policies in this particular sector to allow them to carry-out large enterprises and make use of the advantages accruing from the large size merit known as "economies of scale". Besides, technological developments pertaining to this industry are in need for more funds for research and development.

As for regional arrangements, they have their own special status within the framework of the World Trade Organization. Article (24) of the GATT agreements stipulates that advantages given by one country to another fellow member of a regional trade arrangement, (such as a customs union or a free-trade area), are not necessarily extended to all countries as an exception from the most-favoured- country principle outside that arrange-

ment. There is, however, one major condition: that tariff restrictions imposed by the regional arrangement vis-a-vis nonmember countries, should not exceed their level at the time that arrangement came into being.

In fact, advanced industrial countries have gained a lot from regional arrangements. The European Union, The North American Free Trade Association (NAFTA), the Organization of Economic Cooperation between South American Countries (MERCUSOR), and the free - trade area of ASIAN, are but successful examples of this trend towards uniting under the banner of regional arrangements, which enhances a country's negotiatory position in the field of international economy, and helps it evade the risks and losses that may result from the liberalization of trade.

The need for entering upon regional arrangements is more urgent in the case of countries of the Gulf Cooperation Council, as I have already mentioned, face challenges that call for questions of oil exports and the petrochemical industry.

In spite of efforts made by the countries of the Council in order to strengthen economic ties between them, the bulk of those ties is still less than hoped. It is true that the volume of foreign trade of the Council's countries came up to 181.5 billion dollars in 1999, yet the total volume of trade between them was modest indeed compared to that figure, reaching 14.1 billion dollars. This, of course, is due to the similarity of the production of their exports. Yet this fact should in no way discourage us from trying to develop areas for cooperation in the field of the processing industries, as well as many other new fields.

During the past decade, the services' sector witnessed a considerable growth, particularly in the fields of financial services and insurance. Enough to say that the rate of growth of the financial services in 1999 reached 19%. What makes it particularly praiseworthy is that it fits in with a growing worldwide trend towards shifting to the services sector. World growth in this sector is faster than in the one of commodities. Naturally, there

arc open scopes for cooperation between countries of the Gulf Cooperation Council in order to coordinate their plans and economic policies as regards this important sector, the significance of which will grow with the passage of time. This will also involve efforts to develop local financial markets through modernizing their administration, merging some, and creating specialized financial institutions.

Lastly, I refer to the fact that the summit conference of countries of the Cooperation Council held in Riyadh in December 1999, adopted a resolution, based on extensive earlier studies, to set up a customs union for countries of the Council.

And it is our turn to stress the fact that our efforts in this direction will be a test of resilience in facing the challenges imposed on us by the new world trade system. Such efforts are the sole guarantee for a stronger position in negotiations to ensure our exports' entry into the markets of advanced countries. For to negotiate in a bloc puts us on a much stronger position than to negotiate individually.

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Conclusion

To sum up, I sought in this lecture to focus on one basic point, that is to benefit from the new international trade system with the World Trade Organization at its core, depends on our ability to exert the efforts required. For the world will never present us with our interests on a silver plate, and interests soon turn into lost causes if not fought for.

Any objective analysis will reveal that to join the World Trade Organization is much better than staying out, which is in fact, the equivalent of confining ourselves to isolation and marginalization. To stay out of the Organization will saddle us with the negative repercussions of liberalizing world trade, (the rise in food prices, for example), while depriving us of capitalizing on advantages made available by the new trade system. And there is no better proof of this than China's insisting attempts at joining the World Trade Organization, though supposedly a communist state.

Finally, the international economy is bound to focus more and more on comparative advantage and the expansion of specialization. For the coming years, comparative advantage will not depend on abundance of raw materials or cheap labor but on technology that yields the highest added value in commodities. What I fear most is for the Arab nation not to be aware of this tremendous challenge facing it.

The international economy's trend towards an increasing reliance on technology imposes on Arab governments the duty to spend more money on research and development sectors, and to provide, at the Arab national level, a scientific base for collecting the necessary facts and data on various economic activities, areas of possible investment, and employment status.

To my mind, the main field which joint Arab action should focus on in the coming years is education. It needs giant projects to be carried out at a level involving the whole Arab world. For these giant projects alone can provide us with the cadres

most needed by us to deal with an economic order increasingly intricate, and with a world increasingly dependent on knowledge and information.

As I said earlier in my speech, this distinguished scholarly gathering bringing us together today is a step in the right direction in order to respond to the enormous challenges facing our nation, challenges that are neither few in number, nor easy to tackle.

The World Trade Organization Unit (WTOU) in Brief:

The Center of Excellence in Management affiliated with the College of Business Administration at Kuwait University, in line with its commitment towards an effective participation in the development process, has initiated intensive contacts with officials and specialists in the field of international trade, with an end result the creation of the WTOU. Operating under the umbrella of the Center of Excellence in Management, the WTOU is intended to offer special services in matters relating to international trade. These services cover research, consulting, training, workshops and seminars, and public education lectures.

The kind acceptance by **His Royal Highness Prince Talal Bin AbdelAziz Al-Saoud** to become its Honorary President has been a landmark in the history of WTOU.

The WTOU is now considered as one of the leading academic units in the Gulf Cooperation Council Countries. Since its creation in July 2001, it has been providing business sectors in the region, as well as gov-

ernment policy -makers, with scientific expertise in international trade. The Unit has also been providing data and information pertaining to the World Trade Organization. It has been contributing towards the development of national human resources with skills on topics of relevance to the World Trade Organization. The WTOU has been conducting research and consulting studies on opportunities and challenges likely to face the Gulf Cooperation Council Countries, policy topics on how to maximize the benefits minimize likely risks, as well as other relevant topics as requested by public or private parties.

The Main Objectives of the WTOU:

- Provide all data and information related to the World Trade Organization by putting in service data -bases of relevant institutions and authorities.
- Work towards the development of national skilled human resources in matters relating to the World Trade Organization and its implications on the Gulf Cooperation Council countries.
- Provide research, consulting, and workshop organization on topics (economic, business, finance, environment, etc...) that relate to the Gulf Cooperation Council countries.
- Contribute towards the organization and development of training programs.

People in Charge of the WTOU:

- **Honorary President: His Royal Highness Prince Talal Bin AbdelAziz Al-Saud.**
- Dean of the College of Business Administration: Dr Mirza Hasan.
- Director of the Center of Excellence in Mangement: Dr Adel Husinan.
- Executive Manager of the WTOU: Dr Ahmad Mon-
eer Najjar.
- A Number of Executive Committee Members (from
different fields of expertise).

Stategy for the Future:

Focusing on identification of skilled national and Gulf expertise that can help in exploring opportunities as related to the Gulf Cooperation Council countries commitments, and on matters pertaining to negotiation skills in future ministerial meetings of the World Trade Organization.