

# U.S. Trade with the Middle East: Opportunities and Challenges

Sep 19, 2003



In-Depth Reports

**W**hen I look at the set of challenges we face in the Middle East, it seems like a lot of elements are now being pushed to the fore -- Iran, Iraq, the Israeli-Palestinian peace process, and democratization. One issue that always has garnered less attention in the region is economics. This is understandable, because security is so critical. Sadly, when many people focus on economics, they focus on Western economic support. But economics has to be a key component of long-term regional transformation. Trade is about much more than economic prosperity. Trade is about openness, rule of law, and the creation of opportunity and hope. It is about the values that are important to the United States.

So when I work with Congress and try to move the trade agenda forward -- which is always a challenging task, because every district has its own interests and worries about foreign competition -- I try to make the point about the larger stakes of trade and why it is important for America's security policy in the Middle East and in many other areas of the world. I was the first cabinet officer asked by President George W. Bush to visit Indonesian president Megawati Sukarnoputri, as I had some past experience with Indonesia. This is the largest Muslim country in the world. If Indonesia does not succeed economically and democratically, what does that portend for the Muslim world and for the dangers of terrorism?

I believe we have a tremendous positive opportunity in the Middle East. This is a region with a wealth of human capital waiting to be empowered; the question is, how to accomplish that empowerment. The U.S. trade agenda is part and parcel of the larger program the president has laid out for the region. We will build on our free-trade agreements with Jordan and Israel. We will offer other agreements, graduated steps tailored to the different levels of economic development and economic liberty in the region. We will set a goal -- undoubtedly an ambitious one -- to create a Middle East free-trade area in a decade. In June 2003, I spoke about these issues in Jordan. I focused on the fact that the Middle East was at one time the center of global trade and commerce. It was "the heart of the bazaar." It was the center of commodities trading among Europe, the Caspian region, Africa, India, all the way to China. Developments such as letters of credit also originated in the region. In short, the foundation of modern trade and commerce in some ways grew out of the Middle East.

But the region has largely been excluded from the benefits of globalization because of closed national borders, centralized economies, nationalized industries, and heavy-handed government. People, whether well-intentioned or trying to promote their own interests, have argued that government controls reduce poverty, but instead they have entrenched poverty.

So despite a proud commercial past, the region now faces a series of serious economic challenges. Twenty-five percent of Middle Easterners live on less than two dollars a day. The region's share of international trade and foreign direct investment is among the smallest in the world. During the course of the 1990s, the Middle East attracted just 0.7 percent -- less than one percent -- of the world's total foreign direct investment. The region's exports -- 70 percent of which are oil -- grew about 1.5 percent per year throughout the 1990s, compared to a global average of

about 6 percent. In fact, Middle Eastern participation in global trade is shrinking, from 9 percent in 1992 to less than 4 percent in 2001. Another way to bring home this point: the United States imports almost twice as much from Hong Kong as it does in non-oil products from the twenty-two members of the Arab League and Afghanistan combined. Finally, as the 2003 United Nations Arab Human Development Report revealed, the Middle East has the lowest percentage of people in the world with access to computers or the internet.

But there are some hopeful trends. Between 1978 and 2000, the overall illiteracy rate for adult Arabs fell from 71 percent to 39 percent. This is a very high percentage, but it reveals a substantial shift. The average years of schooling for Arabs age fifteen and over more than tripled in the last twenty-five years. Mortality rates also fell quite significantly in a number of countries; indeed, today life expectancy is seventy years or more in Algeria, Jordan, Iran, Kuwait, Lebanon, Libya, Oman, Saudi Arabia, Tunisia, the United Arab Emirates, and the Palestinian territories.

What do these statistics portray? Increasing prospects for health and increasing prospects for education. At the most fundamental level, these are the building blocks of development. Equally important, we are starting to see recognition in the region itself of the problems that do persist. I firmly believe that unless reform is driven from within, it will not succeed. It is not something that can be forced from the outside. The Arab Human Development Report focused on the lack of freedom and openness as a constraint for development. It focused on opportunities for women, privatization, and the fact that oil revenue can no longer be viewed as a panacea. As President Bush has said, the habits of liberty, whether in economics or other areas, have become the foundation for reform.

I attended a World Economic Forum Conference in Jordan this year that was sponsored by that country's king. It was intriguing to see people attend not only from the government, but also from the private sector. They were looking for opportunity. I remember one session with business leaders that was chaired by Crown Prince Salman from Bahrain and Jordan's King Abdullah II. Looking at these two individuals, the audience could see a different generation of leadership with a new approach. Both men have their own challenges in moving forward with economic reform, but even ten years ago these countries preferred to have economic systems that rewarded a favored few. It was striking to see them realize the need for change.

The Arab business community is also undergoing a change in attitude. Any population anywhere in the world can develop and produce opportunity if they want to. Look at the Arab immigrant population in the United States. We have some three million Arab Americans. Their income levels are about 22 percent higher than the U.S. average. Of these immigrants, an impressive 36 percent have completed college (compared to 43 percent for Americans overall). So, given a chance and the right framework, there is no doubt that people in the Arab world can improve their futures.

Now, there are also economic opportunities for America in the region. With 312 million people, the Middle East is one of the fastest growing populations in the world. This represents largely an untapped market, offering incredible potential for the export of goods and services. For this to be possible, there will have to be movement from closed-door economies. We are already starting to see that in some of the countries with which we have free-trade agreements. Part of the challenge will be how to achieve regional or subregional integration within a global market. We cannot hide from the fact that -- whether in this region, Latin America, or Asia -- we are all competing in the global market. But there are some strategies that also allow opportunity for regional integration as part of that global system.

Here are the key components of the initiative President Bush has laid out for the region. First, we will try to help countries qualify for the World Trade Organization (WTO) that are not yet members -- Saudi Arabia, Lebanon, Algeria, and Yemen. This requires a basic framework for intellectual property rights, customs procedures, and new tariffs. Varying commitments will be made, but this is the baseline. Otherwise, it will be difficult to proceed to anything more complex.

Second, the United States has a program called the Generalized System of Preferences that we were able to extend in the 2002 Trade Act. The program offers duty-free treatment for some 3,500 products. At present, about \$278 million in duty-free trade takes place in the Middle East under this program. (Just to give you a point of comparison, about \$2 billion worth of duty-free trade takes place with Brazil alone.) This is a tremendous opportunity for countries in the region.

Third, we will negotiate bilateral investment treaties and framework agreements. A bilateral investment treaty, which we have with many countries around the world, is an assurance of how investors will be treated and what recourse they will have if there is a dispute. A trade and investment framework agreement is the starting point for a more in-depth trade relationship between the United States and a country. It is not a free-trade agreement, far from it. But it sets up a process whereby we regularly meet with that country, set up business councils, and work through problems whose solutions become stepping stones to a more integrated trade relationship or even a free-trade agreement. For example, in the case of Egypt, customs procedures are so antiquated and bureaucratized that there are more customs officials in Egypt than there are in the United States. If you reduce the tariff but leave it up to the customs officials to set the price of a good, reducing the tariff will not make much difference. This is a question of information technology, corruption, transparency, and fair rules.

Fourth, we would hope to launch additional free-trade agreements, in consultation with Congress, for the Middle Eastern countries that are eligible. Many countries look upon a free-trade agreement with the United States as simply lower tariffs on goods. The reality is that it requires a lot of hard work. The United States has taken a different approach to free-trade agreements than some of our partners have. For instance, European Union (EU) agreements do not cover everything. U.S. free-trade agreements are comprehensive and state-of-the-art, which is why countries find them of particular benefit. They serve as a "Good Housekeeping seal of economic approval" covering goods, agriculture, services, intellectual property rights, and transparency provisions. For example, while negotiating our recent agreements with Singapore and Chile, we heard from the service sector that future provisions for access or regulatory provisions matter as much as current provisions. So in those two free-trade agreements the countries made pledges regarding procedures. In the United States, we are used to the procedure of rule changing. We publish the change; we allow people to comment on it; those responsible have to explain their actions, which are then subject to review. But this is not the case in many countries. In the Singapore and Chile free-trade agreements, the countries have pledged to these kinds of procedures.

Finally, we have to integrate what we call "trade capacity building" into this process. It is not really a question of "trade or aid," but rather "aiding trade." President Bush has devoted about \$750 million to this effort globally, and we have some \$174 million available for trade capacity building in the Middle East alone. What does this involve? For some countries, it means helping to build the expertise necessary to negotiate these complex subjects. For others, it means technical assistance. For example, with agricultural products, you might have access to a country's market, but if you cannot meet the statutory and private-sector standards, you cannot export the product. For still others, it means a link to reform, either through bilateral efforts or through multilateral development banks.

Jordan is an example of free trade stemming from openness to economic reform. The U.S. free-trade agreement with Jordan entered into force in 2001. In 2002, exports from Jordan increased some 72 percent. Jordan's exports to the United States rose from \$16 million in 1998 to \$412 million in 2002, an average increase of 125 percent per year. To give you some context, overall Middle Eastern exports to the United States during that year fell 90 percent (the United States was not growing as much, so we were actually importing less in general). The Jordanian government estimates that free trade with the United States has created 30,000 new jobs in Jordan since 1999, with growth averaging more than 4 percent per year over several years. Perhaps most important, the agreement has led to increased diversification. Jordan is now building multiple industries so that it does not rely on one particular sector.

In addition, we have created a Jordanian qualified industrial zone (QIZ), which gives special access to the U.S. market for some sensitive products, including textiles and apparel if they have some Israeli content. In this way, we are trying to overcome certain barriers between the two neighbors through the economic relationship. A QIZ is available for other countries in the region, including Egypt. The 1985 freetrade agreement with Israel was the first U.S. free-trade agreement. It couples economic ties with our close strategic and security ties. Bilateral trade in U.S. and Israeli goods has expanded from \$4.7 billion to \$19.4 billion, with an equally important expansion of trade in services to \$3.9 billion.

In some ways these anecdotes could be seen simply as success stories. But in other ways, they illustrate possibilities. Having dealt with these issues over some twenty years, I firmly believe in the central importance of concepts and strategies. Models of success driven by individuals, communities, and ultimately countries can have a key demonstration effect on others.

When I was in Jordan, I had a chance to meet the owner of a company that employs 170 people. It produces Arabic word processors for Macintosh computers. Last year, under the free-trade agreement, it earned \$1 million in export sales. That may be a small number in the larger scheme of things, but it is a big start for this company. More important, it put the company on the map. Now Microsoft has announced that it wants to make a major investment in the company. I also met with a Palestinian-American who moved to Jordan to open a grocery store. He stocks Jordanian, American, Israeli, and Palestinian goods and produce. He is planning to open new stores across the West Bank.

And the examples go on. I have met a number of individuals who are committed to creating jobs, opportunity, and hope. It will be difficult to make security stick if young people do not see that they have the opportunity to do something with their lives or to have hope of an alternative course. A key aspect of this relates to the Palestinians, as we have been trying to seek active participation from the Palestinian Authority. Since 1996, the United States has accorded duty-free treatment to goods produced in the West Bank and the Gaza Strip. This connects with provisions of the U.S.-Israel free-trade agreement. The idea is to transition so that the new Palestinian state starts out with a free-trade relationship with the United States. A key point will be trade capacity building programs to integrate the Palestinian economy with regional economies.

In 2003, the United States provided about \$123 million for the Palestinian Authority and \$129 million in direct aid to Palestinians. We are top providers and supporters of Palestinian private-sector development. We spend some \$10 million a year on Palestinian financial institutions in order to grow the private sector, strengthen the business climate, help with various import and export certification requirements, and maintain emergency finances for Palestinian banks. When the Palestinian state is created, we will help it to join the WTO.

What kind of progress are we making? We launched our regional initiative in May 2003. We looked to Jordan to create a model, but we had an idea that, given the vast diversity in the region, we could actually create various models and partners to help us spread our message. So we are now negotiating a free-trade agreement with Morocco, and we are on target to complete those negotiations by the end of 2003. This could be very significant for all the North African states. It is based on one of the trade and investment framework agreements that we signed in 1995. Through that agreement, Morocco has already liberalized its telecommunications sector and strengthened its intellectual property rights laws. It is also moving toward increased foreign ownership in key service sectors, including insurance. A free-trade agreement could not only strengthen the U.S. relationship with Morocco, but also make Morocco another model for the region.

One of our partners is the CMS Energy Corporation from Michigan. CMS Energy has built a \$1.3 billion state-of-the-art electric power plant that supplies about 65 percent of Morocco's average electricity demand. It provides some 300 Moroccan jobs, and, I might add, the project includes a series of environmental aspects to ensure clean

production. CMS was so pleased with its relationship with Morocco that it is now trying to construct an industrial park to attract about \$21 billion worth of economic activity that could provide over 200,000 more jobs. That is absolutely fundamental for Morocco and its reform processes. If people do not have jobs, they will not have hope.

We will begin free-trade agreement negotiations with Bahrain, which I visited recently. I have been extremely impressed with economic reform in that country. The leaders there recognized that they were going to be one of the first post-oil-and-gas economies in the Persian Gulf. Bahrain has had real GDP growth of about 4 to 5 percent over the past three years. It has instituted very good intellectual property laws; cut tariffs, especially commerce provisions; and developed a strategy to become a financial services center.

The degree to which Bahrain's leaders have thought this through is impressive. For instance, Bahrain now has special educational arrangements with Babson College of Massachusetts and DePaul University in Illinois, which is not only training people from Bahrain, but also offers advanced education, including online coursework, for other students in the Gulf. In Bahrain, I visited a school of banking and finance that was training people from all over the Gulf region. It was a highclass operation, and even brought in instructors from the Darden School of Business at the University of Virginia. But the Bahrainis believe that this is about more than financial services. They have a health strategy too, and so they are trying to connect with American health institutions. They also have some extraordinary investments from the Bechtel Corporation, and they are developing an aluminum production line worth, with U.S. investment, about \$1.7 billion.

Our goal is for the progress we are seeing in Bahrain to lead to a free-trade agreement perhaps six months to a year from now. We will have good support for it in Congress. People in other Gulf countries already see Bahrain as a model, so we asked the Bahrainis if they would be willing to allow countries in the region to connect to their free-trade agreement -- perhaps with a few modifications and through a special process with Congress. We would like to do something similar with Morocco and perhaps open the U.S.-Morocco free-trade agreement to countries in the Maghreb who are moving toward reform.

In addition to Bahrain and Morocco, we will begin our first negotiations with Tunisia in October 2003. We are now making rapid progress on that country's tariffs and WTO accession. Crown Prince Abdullah finally decided to make a move, and, in fact, we are getting close to resolving a number of our differences. In addition, the effect of our free-trade agreement announcement with Bahrain has led the United Arab Emirates and others to seek arrangements for a trade and investment framework agreement. I have specifically met with Arab countries -- even those not part of the WTO -- simply to reassure them of U.S. interest in helping them with their ongoing trade liberalization initiatives.

So, where do we go from here? The U.S. government is fully committed to this region and the success of these initiatives. But it will need the support of many others, including the people in this room. The Office of the U.S. Trade Representative is, in some ways, a classic network organization. We have only about 200 people. We are compelled to work in a way that draws on the skills and knowledge of others. Nor do I have the staff to do research on each business sector in the United States -- financial services, manufacturing, and so on. We have to go out and gather expertise. We have a series of formal advisory committees set up by law, and we also have an informal set of relationships.

It is the same in the Middle East. For example, when a group of Palestinian businessmen came to town a couple of months ago, I tried to get their thoughts about economic reform in the Palestinian Authority and how we could help. This is where The Washington Institute -- with your unparalleled regional network -- can help as we move forward. It will be a trial-and-error process. We are committed, but who should we reach out to? Who might help convince governments to change? What are the possibilities for investment? What are some of the business connections?

In the case of Morocco, for example, agriculture is obviously very important, but -- this is a slight oversimplification -

- Moroccans are basically grain producers. That probably dates back to when this region was the granary for Rome. But given climatic and other changes, grain is not economically competitive in parts of Morocco. People there should be producing fruits and vegetables for export to the European and U.S. markets. So we have tried to interact with the World Bank, because it has an agriculture-sector loan program to help rural populations convert to different crops. This is no small step for social stability in Morocco, where some 50 percent of the population work in the agricultural sector. The free-trade agreement can offer a vehicle for reform, but it needs to be matched by other partners. I hope that we can draw on the knowledge and skills of other institutions and the private sector in cases like this.

Let me close with this final thought. I do not have a particular role in Iraq these days. But in some ways these elements also represent the heart of the Iraq challenge. I am often asked, because of my past foreign policy experience, to offer my own sense of how things are going in that country. We really will not know for at least five or ten years. I believe making Iraq work will be one of the slower challenges of our time. The United States is clearly creating a better security environment. With a secure environment, we then have to create economic opportunity; there are aspects related to oil, debt, currency, food, and medicine. But ultimately, the opportunity is extraordinary for Iraq to demonstrate what a democratic society and open economy can do. So, as you discuss Iraq with others in this room who are actually part of the Coalition Provisional Authority, I hope you will keep in mind that the security questions also need to be connected to the economic issues. ❖

---

## RECOMMENDED

---



BRIEF ANALYSIS

### [Bennett's Bahrain Visit Further Invigorates Israel-Gulf Diplomacy](#)

Feb 14, 2022

◆  
Simon Henderson

[\(/policy-analysis/bennetts-bahrain-visit-further-invigorates-israel-gulf-diplomacy\)](#)



BRIEF ANALYSIS

### [Libya's Renewed Legitimacy Crisis](#)

Feb 14, 2022

◆

Ben Fishman

(/policy-analysis/libyas-renewed-legitimacy-crisis)



BRIEF ANALYSIS

## The UAE Formally Ceases to be a Tax-Free Haven

Feb 14, 2022



Sana Quadri,  
Hamdullah Baycar

(/policy-analysis/uae-formally-ceases-be-tax-free-haven)

### TOPICS

Democracy & Reform (/policy-analysis/democracy-reform)

Energy & Economics (/policy-analysis/energy-economics)

Gulf & Energy Policy (/policy-analysis/gulf-energy-policy)

U.S. Policy (/policy-analysis/us-policy)