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HEADLINE: The Middle East Belongs in the World Economy

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For much of history, the Middle East was the commercial and intellectual bridge between Asia and Europe. It was among the most cosmopolitan regions of the world, the birthplace of religions and alphabets, even the source of some terminology common in today's globalized era; technical terms like "tariff," and commodity names like "cotton" and "coffee," have their roots in Arabic.

Today, however, it is painfully clear that the main roads of international trade have bypassed the Muslim Middle East. As it formulates its strategy, the Bush administration should seize this opportunity to complement its fight against terrorism by bringing trade and economic liberalization to the region.

The United States has long recognized the role of trade policy in building a lasting peace. Well before the end of World War II, Roosevelt and Truman developed a strategy for stabilizing postwar Europe through economic assistance and trade integration. This strategy led to a 23-nation tariff agreement reached in 1948. More than 50 years later, the World Trade Organization includes 145 governments representing about 5.5 billion people. Over time, by strengthening areas of common interest among nations, the W.T.O. has helped governments deal with economic crises and political stress.

The policies of institutions like the W.T.O., the International Monetary Fund and the World Bank, and their practical consequences for the global economy, have lately become controversial. But their critics are missing something fundamental. While raising important questions about fairness, sustainability and balance between economic growth and social reform, they have lost sight of one of the

foremost benefits of trade policy: helping to secure a more stable peace.

It is this vision that must now be realized in the Middle East, which has more trade barriers than any other part of the world. Muslim countries in the region trade less with one another than do African countries, and much less than do Asian, Latin American or European countries. This reflects both high trade barriers -- tariffs in Egypt, Syria, Algeria and other major Arab states are all multiples of world averages -- and the deep isolation Iran, Iraq and Libya have brought on themselves through violence and support for terrorist groups.

Meanwhile, as Latin America and Asia have shifted away from reliance on exporting natural resources and toward manufacturing, the Middle East still depends on oil. Today, the United States imports slightly more than \$5 billion worth of manufactured goods and farm products from the 22 members of the Arab League, Afghanistan and Iran combined -- or about half our value-added imports from Hong Kong alone.

And governments in the Middle East are less likely than those in any other region to participate in the World Trade Organization. Aside from Israel and Turkey, 8 of its 11 largest economies remain outside the W.T.O. This means that countries like Algeria, Saudi Arabia and Syria have little chance to open foreign markets fully to their goods, regardless of price or quality.

The consequences of all this are profoundly dangerous. The region's population is young and growing, having nearly doubled to 300 million from 170 million since 1980. Meanwhile, its place in the world economy has shrunk. In 1980, Muslim countries in the Middle East controlled 13 percent of world exports and received almost 5 percent of direct investment; today the figures are barely 3 percent of world exports and 1.5 percent of investment. Last year, the entire Muslim world received barely more foreign investment than Sweden.

In sum, the Middle East has a growing share of the world's population and a shrinking share of its economy. And with the region's political and religious disputes always in the background, its young people are increasingly drawn to radical ideology and religious fundamentalism.

A more active economic approach is necessary. A Middle East with new jobs and stronger growth would have better prospects for more stable societies and a more firm foundation for political reform and peacemaking.

In Jordan, for example, King Abdullah II has overseen a comprehensive revision of economic and trade policy, ranging from deregulation to tariff reductions. This, coupled with various American initiatives, including duty-free industrial zones and a free trade agreement signed by President Bill Clinton in 2000 and passed by Congress in 2001, has begun to alter the economic landscape. In 2002, Jordan's exports to the United States exceeded \$400 million, up from \$16 million in 1998. Some 40,000 Jordanians -- many of them Palestinian women living in depressed

regions -- have found jobs in a newly energized economy.

Such developments show what a more comprehensive Middle East trade policy might achieve. As many Arab intellectuals now recognize, the region has reached an economic dead end and needs a new approach -- economic liberalization as well as improved education, empowerment of women and political reform.

The United States should build on this through an integrated, long-term strategy for returning the Middle East to the world economy. The administration's prospective free-trade agreement with Morocco can be a starting point for a far more comprehensive approach to the region, comparable to that which already exists for Latin America and Africa. For example, accelerated W.T.O. membership for Saudi Arabia, Algeria and Yemen -- all of which have already applied -- is essential. In the interim, bilateral free trade agreements can be part of the solution, as can a regional trade-preference program similar to the African Growth and Opportunity Act.

Such a strategy will not cure the region's political problems. Nor will it substitute for security policy in the campaign against terrorist groups. But history gives little reason to be confident that either a politics-only approach to Middle East peacemaking, or a military-only approach to terrorism, can succeed.

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