

U.S.-Bahrain Accord Stirs Persian Gulf Trade Partners

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DOHA, Qatar, Dec. 23 - A free trade agreement between the United States and Bahrain is creating ripples in the Persian Gulf, with Saudi Arabia objecting to closer commercial ties between its neighbors and Washington.

At the root of the dispute is a free trade agreement that the United States and Bahrain signed in September. Under the pact, the United States and Bahrain would eliminate tariffs on most consumer, industrial and farm products, and open markets for services. The agreement requires approval from the legislatures of both countries.

But Saudi officials in recent weeks have complained that unilateral agreements violate the rules of the Gulf Cooperation Council, a customs union that groups Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates. Tariffs on goods traded among the member countries were eliminated at the start of 2003, and a common external tariff of 5 percent was imposed on products from outside the bloc. At its most ambitious, the council envisions a monetary union that would adopt a common currency by 2010.

The trade scuffle became public in an unusual way this week at a council meeting in Manama, Bahrain. The regional press reported that Crown Prince Abdullah of Saudi Arabia shunned the gathering because of the trade pact, instead sending the second deputy premier, Sultan bin Abdulaziz al-Saud.

Although the final statement from the Manama meeting made only brief mention of such trade agreements, Bahrain's foreign minister, Mohammed bin Mubarak al-Khalifa, said at a news conference that the pact had been examined in detail at the meeting, the Bahrain News Agency reported. Other agencies said the issue simmered throughout the gathering.

The Bahrainis have insisted that they will push ahead with the trade pact, and the United States ambassador to Bahrain, William T. Monroe, said in a recent interview that he was hopeful it would be approved. "This is a positive step for Bahrain and the region," he said.

Most trade analysts, many of whom agree with the Saudi position, nonetheless say they expect the smaller council countries to follow through with plans to sign their own agreements with the United States, though the spat may slow the process down.

But just below the surface of the conflict is the competition between Saudi Arabia and the United States for influence in the region, trade analysts say.

"Saudi Arabia used to be the most stable, most powerful country in the region. Now it has economic problems, political problems," said N. Janardhan, a specialist in Gulf politics at the Gulf Research Center in Dubai. "There's a process where the status of Saudi Arabia is being limited. And the U.S. is trying to exert its influence."

Once viewed by its neighbors as rock-solid economically and politically, Saudi Arabia has been rent by bloody terrorist attacks. Unemployment is estimated at around 20 percent and the country is trying to develop its own industries, an effort that could be hurt by an influx of American goods from a neighboring country.

At the same time, some of the tiny Gulf monarchies have made big economic strides, giving them a newfound confidence and eagerness to tighten trade ties with the United States. Saudi Arabia is the only council country not in the World Trade Organization, and the United States is aiding its entry.

"There is no question about the fact that these agreements are a leading edge for expanding U.S. influence," said Sherman Katz of the Center for Strategic and International Studies in Washington. "For Saudi Arabia to be rattling sabers in relation to what other G.C.C. countries should do is in no way surprising."

To be sure, Bahrain is a tiny part of the United States trade equation. American exports to Bahrain totaled \$509 million in 2003; imports from Bahrain were \$378 million.

An archipelago with a population under 700,000, Bahrain does not have the energy wealth of its Gulf neighbors and has relied on Saudi oil in the past. Home to the United States Navy's Fifth Fleet, Bahrain is also connected to mainland Saudi Arabia by a 16-mile causeway.

Bahrain is the first Gulf country to sign a free trade agreement after the Bush administration laid out its vision for reaching such accords with some of the more reform-minded countries in the region, with an eye toward creating a so-called Middle East Free Trade Area by 2013. The United States Trade Representative's office has told Congress it will seek similar agreements with the United Arab Emirates and Oman.

"We also look forward to further agreements in support of the president's vision of establishing a U.S.-Middle East Free Trade Area by 2013. The free trade area would reignite economic growth and expand opportunity in the Middle East," Ambassador Monroe said.

While many of Saudi Arabia's concerns may be political, there is cause for economic worries as well, analysts say. "Saudi Arabia fears for itself," Mr. Janardhan said. "It fears a lot of the goods that come in through Bahrain will end up in Saudi Arabia."

Earlier this week, the Saudi foreign minister, Prince Saud al-Faisal, attempted to calm spirits. "It's wrong to see the case as personal," he said to Reuters. "We didn't do this out of selfishness, but out of concern for the council's integrity."