CHALLENGES 2004-2005:
U.S. Trade Tactic Splits Arab States

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WASHINGTON, Dec 22 (IPS) - A free trade deal between the United States and the tiny Persian Gulf Kingdom of Bahrain is causing friction with other Arab states, which say the pact could weaken their economic bloc ahead of future trade talks with Washington.

A meeting of the heads of states of the six-nation Gulf Cooperation Council (GCC), made up of the oil-rich nations of Saudi Arabia, Kuwait, Bahrain, Qatar, Oman and the United Arab Emirates (UAE) fell apart after Saudi Arabia, the largest and most influential member, said Bahrain's deal would open a backdoor for U.S. goods to enter the region.

The GCC is an economic bloc established in 1981, modelled after the European Union (EU) and Mercosur, or the Southern Cone Common Market, in Latin America. The Arab grouping is scheduled to establish a single market and currency by 2010.

The leaders ended their summit Tuesday without solving the bitter dispute, which led Crown Prince Abdullah of Saudi Arabia to skip the gathering in protest.

After delaying their final session for three hours over the disagreement, the leaders finally released a statement that avoided the issue of trade altogether to maintain a solid public front, according to several Arabic language press reports, which added that the atmosphere at the gathering was visibly tense.

”We discussed bilateral agreements and decided to postpone a decision for a future meeting,” Bahraini Foreign Minister Mohammed bin Mubarak al-Khalifa said in the statement.

”We don't have to deal with this issue immediately and I am happy we have finalised this meeting as we have. There are always differences in opinions,” he added.

Washington and Bahrain signed the trade deal in September. When the agreement, which will be ratified in 2005, goes into effect, 100 percent of consumer and industrial products and 81 percent of agricultural exports from the United States will enter the Gulf nation duty-free.

Under the deal Bahrain will open its services market wider than any other U.S. trading partner, adopt Washington's preferred intellectual property rules and open government procurement to U.S. companies.

Saudi Arabia is worried that Bahrain signed the deal independent of its regional partners and that the new rules will see the region flooded with U.S. goods. The GCC governments have already dropped all trade tariffs among themselves, meaning that once in the region, U.S. goods could potentially move freely across borders.

Riyadh has reportedly said it may consider rolling back the tariff reductions and blocking trade from neighbouring countries to protect its economy.

That would be a setback for the long-term strategy devised by Washington to press larger countries to open up for U.S. trade.

After facing stiff opposition from big countries like Brazil in Latin America and Saudi Arabia in the Middle East over his ambitious trade plans, U.S. Trade Representative Robert Zoellick developed a strategy to strike deals with small countries in the same region in order to sway those larger nations.

Tiny nations stand to gain little economically from the pacts, but they do receive some political clout and status as U.S. trading partners.

Bahrain, an archipelago of some 30 islands, is a case in point. The tiny nation, with a population of only 730,000 people, has always tried to break free from the shadow of its larger neighbour, Saudi Arabia, a nation of 25 million people and the dominant player in global oil markets.

For example, Bahrain chose to give the United States its largest military bases in the Arab world, and it hosts the U.S. Navy's Fifth Fleet, earning it Washington's designation as a ”major non-NATO ally.”

Its ruler, Sheikh Hamad Bin-Isa Al-Khalifah, designated himself king in February 2002 after he succeeded his father and changed Bahrain's status from an emirate to a monarchy, in a move that was seen triggered by envy of the Kingdom of Saudi Arabia.

In May 2003, and as part of its response to the Sep. 11, 2001 terrorist attacks -- carried out by hijackers most of whom were Mideast nationals -- U.S. President George W Bush announced an initiative to create a Middle East Free Trade Area (MEFTA) by 2013.

Since then, Washington has concluded FTAs with Morocco and Bahrain, and has said it will start talks with the UAE and Oman.

The United States already has FTAs with Jordan, a country of nearly five million people and Israel, whose population is six million people.

Washington believes those agreements will pressure larger nations to sign on to deals like the proposed Free Trade Area of the Americas (FTAA) and MEFTA, and to resume global negotiations at the World Trade Organisation (WTO).

Zoellick's approach of cutting deals with small markets like Bahrain, known as

”competitive liberalisation,” has been assailed by some U.S. congressmen, who argue that negotiating free trade agreements (FTAs) with small countries wastes precious and limited U.S. negotiating resources.

Congress' watchdog agency, the General Accounting Office, has also questioned the economic payoff of the accords. It estimated that all existing FTAs, plus those in progress, accounted for only about eight percent of total U.S. trade.

Bahrain is hardly a big fish for U.S. companies. Total two-way trade between the nations was only 900 million dollars in 2003, with the United States exporting more than half a billon dollars worth of goods and services. Bahraini exports included oil, gas and aluminium.

The Bush administration has completed FTAs with 10 other countries: Chile, Singapore, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Australia, Morocco and the Dominican Republic.

It is currently negotiating deals with ten other relatively small markets as part of its strategy: Panama, Colombia, Ecuador, Peru, Thailand, and with the five nations of the Southern African Customs Union (SACU) -- Botswana, South Africa, Lesotho, Swaziland and Namibia. (END/2004)