Economic Recession and the Middle East's World Trade: Recent Policy Trends and Implications

Samir Pradhan
Gulf Research Center, Dubai

1. Falling world trade and growing protectionism

Trade is a major channel of contagion during the current global economic recession. The countries of the Middle East , which are characteristically over-dependent on international trade for their economic growth and development, are as a result bound to be affected. The most significant aspect of the current slowdown in world trade is the synchronized nature of the decline in exports and imports of the major developed and developing economies since September 2008. Importantly, the impact of the global economic slowdown is clearly evident in the trade of bulk commodities, which have been hit by plunging commodity prices and the crunch in trade-financing. As a result, the Middle Eastern economies, being primary exporters of commodities, have been negatively affected by the reduction in global demand, especially for oil and petrochemicals.

In addition, the surge of protectionist tendencies in response to the economic crisis further compounds the problems facing the Middle Eastern countries, which are equally dependent on world imports. It may be premature to draw broader conclusions, but looking at the recent trade restrictive measures implemented by countries across the globe, as reported by Global Trade Alert, it is clear that the Middle East region has been very negatively affected. The principal objective of this article is to delineate the current trajectory of the Middle East's world trade in the grip of global recession and to offer a preliminary analysis of the impact of foreign trade measures implemented globally on the commercial interests of the Middle East, through a consideration of various qualitative indicators extracted from the GTA database. Against such a background, the second section presents an overview of the reorientation, or strategic regional shift, of the Middle East's world trade. The next section evaluates the impact of foreign trade measures on the Middle East countries of the Middle East. The final section presents some policy conclusions.

1 In the Middle East, the focus countries covered in this report are the six member Gulf Cooperation Council (GCC) namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE); Iraq; Iran; Yemen; Jordan; Lebanon and Syria.

2. The reorientation of the Middle East's trade

The Middle East is an interesting case to analyze the impact of trade policy measures implemented during the current global economic crisis. Indeed, the Middle Eastern countries are highly open economies, with a total average trade-to-GDP ratio[2] of 105.2 in 2008. Both exports and imports of goods and services constitute a highly significant portion of each country's GDP, signifying the importance of international trade for the Middle Eastern economies (See Table 10.1). The peculiar factor endowment of the Middle East - which is rich in oil and poor in water - makes international trade an indispensable factor in the growth and economic development of the region, but simultaneously makes the region highly vulnerable to the cyclical pattern of world trade movements.

Table 10.1 Trade indices as a percentage of GDP, 2005-2007

Country	Total Trade (X+M)			Exports (X)			Imports (M)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Bahrain	20.02	28.06	25.23	73.52	65.06	61.25	53.51	47.73	54.1
Egypt	-4.03	-3.60	-2.36	34.25	34.13	33.38	38.27	37.73	37.73
Jordan	-41.43	-37.44	-37.7	52.61	54.56	57.75	94.0	92.00	91.53
Kuwait	35.72	32.96	23.04	63.99	67.88	59.90	28.28	25.12	25.62
Lebanon	-14.66	-12.49	-12.5	61.03	63.45	66.86	75.69	75.93	79.11
Oman	27.09	28.4	24.67	63.02	62.14	63.12	35.93	37.51	39.87
Qatar	..	..	..	..	..	..	..	..	..
Saudi Arabia	33.004	32.69	31.1	59.38	62.61	64.2	26.37	29.92	34.16
Syria	1.46	3.86	-73.36	40.82	39.42	37.8	39.36	35.56	35.01
UAE	..	..	..	..	..	..	..	..	..
Yemen	4.96	0.44	-1.26	40.52	41.27	38.98	35.56	40.83	39.86

Note: Two dots (..) indicate that data are not available or are not separately reported.
Source: The World Bank, Worldwide Trade Indicators (WTI) database (2008)

A clear shift is currently taking place in the geographic direction of the Middle East's world trade, in conjunction with the changing economic strength of the countries in the region. Whilst in the past highly populous, more diversified non-oil exporting countries like Egypt used to be the major economic power, more recently, the Cooperation Council for the Arab States of the Gulf (GCC) has emerged as the most important economic centre of the region, accounting for almost 60 percent of the total GDP of the Middle East region. The GCC countries are even more closely integrated in the globalization process than the rest of the region.

The drop in world trade due to the economic crisis has significantly affected the Middle East countries. As is evident from the trends in Table 10.2, Middle East exports to North America, which accounted for 10.5 percent and 14.2 percent of its total exports in the year 2005 and 2006 respectively, declined to 2.3 percent in 2007. The US is an important export destination for Middle East countries - in 2006, the US

2 Trade-GDP Ratio is estimated as an economy's total trade of goods and commercial services (exports + imports, balance of payments basis) divided by GDP, on the basis of data for the three latest years available. GDP is measured in nominal terms and with market exchange rate.

Table 10.2 Direction of Middle East exports, 2005-2007 (percentage)

	2005				2006				2007			
	Asia	EU	North America	Others	Asia	EU	North America	Others	Asia	EU	North America	Others
Oil-exporting countries	54.6	14.3	11	20.1	57.6	17.2	15.6	9.6	71.3	3.9	1.2	23.6
Non-oil exporting countries	29.2	48.6	6.2	16	29.3	45.8	6.2	18.7	26.8	50	3.2	20
Middle East	51.7	18.2	10.5	19.6	53.4	21.5	14.2	10.9	47.6	28.5	2.3	21.6

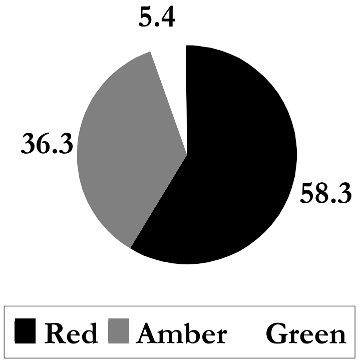
Note: * EU-15; Oil-exporting countries include: Algeria, Bahrain, Kuwait, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Sudan and the United Arab Emirates. Non-oil exporting countries include: Comoros, Egypt, Jordan, Lebanon, Mauritania, Morocco, Syrian Arab Republic, Tunisia and Yemen.
Source: Calculation based on the UN-Comtrade database.

accounted for 19 percent of the total exports of Egypt and Saudi Arabia and 15.6 percent of Jordan's total exports. Thus it is natural that with the recession taking its toll in the US, these Middle East countries have been most affected. Similar negative trends are also likely to emerge in Europe, which is another major trading partner of the Middle East countries. In particular, non-oil exporting countries are highly dependent on the European market. Sluggish economic activity in European countries will therefore have an impact on the exports of these countries. However, from the perspective of the major oil exporting countries (GCC's) trade with Asia, a different picture emerges. While on the one hand exports of oil and petrochemicals to the developed world have declined due to low demand and negative oil prices, the Asian region, being the largest export destination, continues to be an important trade partner, even though there has been a moderate decline in exports to Asia.

3. The impact of foreign state measures on Middle Eastern commercial interests

As of 11 September 2009, a total of 240 state measures affecting Middle Eastern countries have been identified in the GTA database, of which 146 measures affect the GCC countries. It is important to note that discriminatory measures (marked red and amber) comprise an overwhelming 95 percent of total measures against the Middle East countries and the remaining 5 percent constitute trade liberalizing measures. In other words, while Middle Eastern countries are faced with 204 trade discriminatory measures implemented, or about to be implemented, by countries across the world, trade liberalizing measures affecting the region number only 36. This implies that the Middle Eastern countries, being substantially open economies, will face the brunt of increasing protectionism during the crisis and their world trade will as a result be considerably affected; and this will further negatively affect growth and economic development in the region.

Figure 10.1 All measures affecting Middle East countries (%)



Source: Calculated from the GTA Database as of 11th September 2009 1.30 pm.

Table 10.3 Post-crisis trade measures affecting Middle Eastern countries

	Green	Amber	Red	Total
Bahrain	1	6	7	14
Kuwait	1	7	8	16
Oman	1	9	14	24
Qatar	2	6	6	14
Saudi Arabia	2	17	17	36
United Arab Emirates (UAE)	1	18	23	42
Gulf Cooperation Council Total	**8**	**63**	**75**	**146**
Iran	3	11	13	27
Iraq	1	0	3	4
Yemen	0	0	11	11
Jordan	1	6	15	22
Lebanon	0	4	10	14
Syria	0	3	13	16
Middle East Total	**13**	**87**	**140**	**240**

Source: Calculated from the GTA Database as of 11th September 2009 1.30 pm

As is evident from Table 10.3, UAE is faced with the highest number of discriminatory trade measures, followed by Saudi Arabia, Iran, Oman, Jordan, Kuwait, Syria, Lebanon, Bahrain, Qatar and Iraq. Moreover, the nature of discriminatory measures further confirms the increasing protectionism across the world, which could considerably hinder the Middle East's world trade in the near future (See Table 10.4). Apart from trade distorting measures such as export restrictions, export subsidies, tariff measures, non-tariff barriers, technical barriers, and trade defence measures, Middle East countries also face negative investment measures undertaken by the rest of the world. However, it is clear that these restrictive measures are not implemented directly against Middle Eastern countries, but as a result of growing protectionism measures in reaction to the economic crisis.

Table 10.4 Nature of discriminatory measures against Middle East

Measure Type	Number of Measures
Bail out / state aid measure	40
Consumption subsidy	2
Export subsidy	27
Export taxes or restriction	29
Import ban	4
Intellectual property protection	1
Investment measure	12
Local content requirement	5
Non tariff barrier (not otherwise specified)	10
Other service sector measure	5
Public procurement	5
Sanitary and Phytosantiary Measure	10
State trading enterprise	3
Tariff measure	25
Technical Barrier to Trade	5
Trade Defence measure (AD, CVD, safeguard)	11
Trade finance	10
Total Discriminatory Measures	204

Source: Calculated from the GTA Database as of 11th September 2009 1.30 pm

Table 10.5 Post-crisis trade measures implemented by Middle Eastern countries

	Green	Amber	Red	Total
Bahrain	0	0	0	0
Kuwait	1	0	1	2
Oman	0	0	0	0
Qatar	0	0	0	0
Saudi Arabia	1	1	4	6
United Arab Emirates (UAE)	0	1	1	2
Gulf Cooperation Council Total	**2**	**2**	**6**	**10**
Iran	0	0	0	0
Iraq	10	0	1	1
Yemen	0	0	0	0
Jordan	1	0	1	2
Lebanon	0	0	1	1
Syria	0	0	1	1
Middle East Total	**3**	**2**	**10**	**15**

Source: Calculated from the GTA Database as of 11th September 2009 1.30 pm

While Middle East countries in general, and GCC in particular, are confronted with an increasingly discriminatory trade environment in the aftermath of the global economic recession, they are not undertaking substantial counteractive measures in relation to international trade. This is evident from the trends of measures identified in the GTA database. As of 11 September 2009, Middle East countries have implemented, or are about to implement, only 15 measures, out of which trade there are 12 dis-

Table 10.6 Nature of discriminatory measures implemented by Middle East

Measure Type	Number of Measures
Bail out / state aid measure	40
Import ban	4
Sanitary and Phytosantiary Measure	10
State trading enterprise	3
Trade finance	10

Source: Calculated from the GTA Database as of 11th September 2009 1.30 pm

criminatory measures and the rest trade liberalizing measures (See Table 5). Importantly, these discriminatory measures are highly transitory in nature and were undertaken solely on the basis of health concerns and thereby would have marginal localized impact on global trade.

Therefore, Middle East countries in general, and GCC in particular, will face daunting challenges in their international trade activities during the current global economic recession. By virtue of being highly trade dependent economies, the future economic growth of the region will no doubt be affected by these negative trends. Since the success of any trade policy crucially hinges on its actual contribution towards improving market access for domestically produced products and services, and its ability to minimize the consequences of openness, trade liberalization and globalization on the domestic market, Middle East countries need to reorient their trade strategy to address the increasing proliferation of trade discriminatory measures across the globe. It is therefore imperative that the Middle Eastern countries introduce appropriate policy regimes at the national as well as regional levels. In this respect, GCC countries should take the lead in projecting a collective face at the various multilateral foras, such as the G-20 and WTO, urging better surveillance, monitoring and a more enabling multilateral trade regime. Moreover, GCC countries should also intensify economic integration at the broader pan-regional level in the Middle East, which could provide greater bargaining power at the global level. While trade diplomacy in the region is still at its infancy, multilateral bodies such as the WTO should also help to improve capacity building in the region.

4. Concluding remarks

The Middle East has a huge stake in the multilateral trade regime. The increasing spate of trade distortionary measures undertaken by economies across the world in response to the economic crisis, will negatively affect the Middle East Countries in general and GCC in particular, and hinder future economic growth. While paradoxically the industrial economies are increasingly tempted to resort to protectionist practices, the Middle East region, and particularly the GCC, continues to tread the path of trade liberalization even in the face of a severe global economic recession. As is evidenced by the GTA indicators, the trends of trade related measures taken by the Middle East countries vis-à-vis the rest of the world during the ongoing economic crisis is less trade distortionary in comparison with the measures implemented by rest of the world that affect the Middle East. While recent attempts are a move 'back to fundamentals', trade-related policy-making continues to be relatively weak in the Middle East region. This is due to insufficient awareness and lack of trade-related capacity in the region; matters that should be redressed at the earliest opportunity.