

**Seminar: International Trade Agreement  
and its Effects on the National Economy**

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**Modern Developments in the International  
Economy and its Effect on the Future of  
the Arab Economy**

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Ladies and Gentlemen:

Global economic events and developments since the late 1980s moved in rapid succession and many factors reacted with one another, leaving profound effects on numerous aspects of the global economy. These effects took the form of major economic changes to form a new global system and all that this system requires as far as remapping economic plans and re-dividing regional action between common economies.

The Arab region isn't isolated from all these events, but is actually in the midst of it frequently, as contemporary international developments generate new challenges for this region that require a reevaluation of the Arab internal and external relationships, revitalizing common Arab economic action laying the foundations of Arab economic relations based on national interest.

**First, Globalization and its Economic Effects:**

The term globalization has become commonly used in recent years, especially after the collapse of the Soviet Union. Globalization appears in the areas of politics, economy, culture, technology and communications, and includes reorganizing production and industries and the proliferation of financing markets, without being limited to the political boundaries of sovereign states.

The concept of globalization is directly tied to the US economic, cultural and political view, in light of the new world order that it outlines after the 2<sup>nd</sup> Gulf war. What propelled this view forward was the speed and emphasis with which the Soviet Union fell, and the absence of principled views on economy, politics and intellect that are independent of those of the capitalist principle led by the USA. Therefore, globalization has been defined as:

A new world order that is based on the electronic mind and the information revolution based on information and unlimited technical creativity, with no regard to systems, civilizations, cultures and values, or geographic and political boundaries existent.

It can also be defined as:  
Forces that cannot be controlled by international markets or multinational conglomerates, which have no loyalty to any particular nationality.

A third definition for globalization is:

The freedom of movement for goods, services, labor, capital and information across national and regional borders.

Globalization has numerous economic, political, cultural and communicative manifestations. The economic ones, appear primarily in the growth and deepening of mutual interdependence amongst states and national economies, and in the unification of financial markets, and in the broadening of commercial transactions in a framework void of protective trade laws, due to the last results of the GATT round, and the establishment of the World Trade Organization (WTO). These manifestations appear particularly through the work of international economic blocs, and the activities of international companies and financial institutions such as the World Bank and others.

On the other hand, there is a description for the economic aspect of globalization. From a purely economic perspective, globalization means the integration of global markets in the fields of trade and direct investments and the transfer of funds, labor, cultures and technology within the framework of capitalist market freedom, and following submission worldwide to the forces of the global market. This leads to the penetration of national borders and significant recession in the sovereignty of the state. The main element in this phenomenon is multinational conglomerates, which play a major role in globalization. These companies are quite large, as the annual sales of one of them may surpass the GDP for numerous medium sized nations. The volume of direct and indirect investments of these firms in many countries is able to limit the sovereignty of these states. So, if a particular nation wanted to follow a policy that could be detrimental to the profits of one of these companies, that company can basically shut down its branches and transfer them somewhere else. From here, globalization started to mean the cancellation of the economic boundaries between the political units that form the whole world. It also means the freedom of international trade, the market economy and internal and external competition. It is because of this that globalization started to acquire a bad reputation, but is started to mean violating the specifics of local economies and generalizing the market economy, which is the rule of the world's economic giants. So, globalization tries to melt the economies of numerous countries into one economy.

From the aforementioned, it is clear that the main objective of globalization is establishing regional economics, through which a transfer occurs from an international economy that is based on competitive economies that are self-focused to a more regional economy as a step towards a globalized one. Following this pattern of

economies, the specific nationalistic aspects that exist, takes a back seat to be replaced by goals centered on the regional and globalized economy.

From this it follows that rules of control will develop, over productive, industrial, technological and informational systems in the developing and Arab countries, in addition to rules that lead to controlling Arab resources and utilizing for the convenience and progress of the Northern countries (with Southern countries paying the price). As a result of this, a regional productive system will appear that will replace the national productive regimes, which means moving from self-focused Arab economies to new regional and globalized production sets in a regional market. Consequently, Arab growth and its tendencies are encountered, and Arab and developing economies are pushed to abandon their particular nationalistic tendencies and independent development models in return for further sycophantic integration into the global market.

Therefore, the globalization of productive units and deepening their integration into the global market will allow its administrators to manage them externally in a central fashion and as a result break up the public sector and remove the role of the state in running the national economy.

Despite this, discussion of globalization is still ongoing, as certain opinions favor it completely and the necessity of its application, while others reflect a relatively cautioned approach due to its negative repercussions. Truth of the matter is that this topic represents a real challenge that developing countries face in general and Arab countries in particular. With the conviction that further Arab banking and economic openness on the outside world is necessary, the recent markets crisis made clear the dangers of rushing to keep up with globalization without the availability of the basic components that enable Arab economies to absorb globalization's numerous effects. On the other hand, what must be taken into consideration is the potential amount of losses. This is because delaying the process of coping with globalization may weaken the negotiating position of Arab states in international organizations, hinder its competitive ability in international markets, delay the transfer of technology to their vital sectors and slow down the development process in general.

### **Second: Economic Blocs in Light of Globalization:**

The phenomenon of regional institutions and blocs has been a unique characteristic of global economy since the end of World War 2. These

institutions and blocs are considered an advanced form of economic cooperation between nations, but most, however, are not a form of economic integration known in the classical economic sense.

The desire to coordinate economic, social and military collaboration –in all or some of these aspects- was the motive behind establishing these regional congregations. This process relied on the similarities between general characteristics in any one of these fields. The motive may also be a feeling of an external economic, social, political or military danger that could be threatening in all of these areas, or possibly both of these motivating factors combined in some instances.

Economic blocs aimed to strengthen trade ties between their members, and amongst those blocs and other ones, and protecting the interests of the member-states at the national and global levels. Regardless of the shape these blocs take, they all aspire to expanding the market, and what follows in terms increased economic efficiency, resources distribution and their improved competitive capability.

Therefore, the challenges imposed by changes in international economic relations and represented in increasing the tendency towards globalization, internationalization of the economy and communications, the speed of transactions and liberalization of trade, will all lessen the economic sovereignty of nations in favor of regional clusters. These clusters facilitated the creation of the GATT Agreement and the WTO, which in turn gives certain privileges to its members to the exclusion of other states.

So, the world today is moving towards regionalism, which is seen as a solution for difficult economic problems at the international level. This movement towards regionalism experienced a stumbling and also a positive launch. The stumbling occurred in the Uruguay Round that failed to secure a solution for the problematic issues after a lengthy period of time, such as the rules on protecting competition, monopoly prevention, government purchases, consolidation of laws of investment and trade in services, intellectual property rights and other topics left to the WTO to follow up on.

As for the positive launch, that was representative in the illuminating and continuous success of the regional European collaborative efforts ever since the Treaty of Rome in 1957. This positive launch was also exemplified in the transformation of the USA's traditional stance of favoring trade liberalization at an international level towards it creating free trade zones in accordance with conventions in this regard, such as the NAFTA signed with Canada and Mexico in 1992.

We note here that the tendency to move towards regionalism is clear and abundant in most nations. There is a resurrection to economic and social ideas prevalent in the 1960's, but in a new framework represented in increased trade liberalization in all good and services categories, the removing barriers of duties and customs and others. For example, the European Economic Community grew to become the European Union, and the Central American Common Market (CACM) was resurrected, in addition to the Association of Southeast Asian Nations (ASEAN) and the common southern market of Latin America (MERCOSUR) between Brazil, Argentina, Uruguay and Paraguay. There was no lack of certain efforts in this regard in the Arab region as well, which was a witness to numerous cooperation agreements and economic coalescence that still lack comprehensiveness and actual execution. These include the Arab Economic Unit, the Arab Common Market, the Gulf Cooperation Council, the Arab Maghreb Union and other Arab regional blocs that lacked continuity and depth. The consecutive Arab summits convened in recent years, however, have opened the possibility anew to create a regional Arab free trade zone, and it was declared that economic interests override political motives, in contradiction to what the regional Arab tendency used to be.

Globalization and economic liberation are two interrelated trends that contribute to changing circumstances and forming economic behavior for businesses and commerce worldwide. They have become more tied to and affected by the paths of national, regional and global economy, such that the success and advancement of countries and blocs are measured by the extent of participation or involvement in these two trends.

The significance of these alliances or economic trends and their increasing role, represents an important economic dimension of the new world economic order. The importance of these economic blocs and the privileges granted to their members are no secret. Therefore, the developing countries including the Arab ones are in dire need of forming these types of unions through which they can face the economic challenges of the 21<sup>st</sup> century.

From the aforementioned, it is clear that these economic or political alliances transition through different phases and take on numerous forms. There are many nations that entered in such types of groupings and weren't able to achieve the desired success, so the blocs remained limited and did not mature as they should have. On the other hand, there were alliances that reached their pinnacle in record times that

still work diligently to minimize any gaps between their member-states.

Here, we must pause at the definition of integration. It refers to a continuous political, economic and social process that moves toward creating integrative relationships to create mutual economic interests and fulfilling common benefits, by the most ideal common utilization of economic resources available to the members of the economic union. This aims to fulfill a higher degree of overlapping between the economic and social structures, so that there will be higher rates of economic growth and corresponding prosperity.

There are some phases that economic alliances go through in order to achieve the stage of complete economic integration. Also, some of these blocs do not strive to reach this stage to begin with, and are content with just fulfilling one or two of these phases. The stages or types of economic integration follow:

#### **1- Preferential Trade System:**

This is a convention between two or more countries where there is preferential treatment based on removing quantitative and non-quantitative obstacles in trade, whether it be trade in commodities or services, such as reducing tariff rates or canceling the shares system. The preferential trade system is considered the least developed form of economic integration or rather its first phase.

#### **2- Free Trade Zone:**

The characteristic of free trade is more comprehensive and general than the preferential trade system, because a free trade zone means the removal of quantitative and non-quantitative limitations specific to external trade among the member-states of the economic union. As for the policy of external trade for each member, it is drawn by that state itself, in accordance with its economic interest. Coordination between member-states in this area is not required.

#### **3- Customs Union:**

Customs unions is a step above the free trade zone format, since it includes the adoption by the members of the economic alliance of a unified customs tariff on external trade, in addition to the removal of quantitative and non-quantitative limitations in multi-lateral trade among members.

#### **4- Common Market:**

This is the step that follows the customs union phase, if members of the economic union desire to create such a market. The common

market aspires to fulfill the aforementioned goals of the customs union, in addition to the freedom of movement for the elements of production. (i.e. labor and capital between members with no restrictions in order to form one market)

### **5- Economic Unity:**

This is considered the most advanced stage of economic integration and most sophisticated, in terms of the cooperation between members of the economic alliance. This phase fulfills all the requirements of the common market in addition to coordinating the economic policies –and particularly financial and monetary ones- between member states.

### **6- Monetary Coalescence:**

Monetary coalescence can be divided into full and partial coalescence. The partial form includes numerous formulas of monetary cooperation that does not reach the level of creating a common currency. Some of the more important types of partial coalescence among nations are:

- a- Creating a union for payments
- b- Collection of the reserve
- c- Coordination of exchange rates
- d- Usage of an accompanying currency

As for full monetary coalescence, it occurs when members create a common currency amongst themselves to replace their own local currencies for all practical purposes.

In the Arab region, Arab nations during the past decades have accomplished steps to increase economic cooperation between them, yet they have not done much to change the nature of Arab economic relations, or achieve significant progress in dealing with one another. Multilateral trade in non-oil commodities is still modest, movement of Arab individuals freely is still restricted, and there are still political, economic and institutional obstacles to Arab economic integration that require decisive solutions.

Therefore, the new international environment has begun to impose numerous challenges before Arab states to embark on institutional and economic reforms, in order to firstly avoid the negative aspects of this new environment, and secondly to reap the expected benefits of ongoing changes, and thirdly to contribute in integrating these changes into this new environment, that keeps moving towards globalization, economic blocs, international trade and its liberalization.

### **Third: Creation of the WTO and its Effect on the Future of International and Arab Economy:**

Now, the tendency towards globalization has become common and prevalent worldwide, and in particular now that the socialist bloc has dissociated, and the concept of focused or directed economy has declined and been replaced by the idea of a market economy. This market economy has been adopted as a primary tool for growth, as have its elements such as its institutions, goals and activities. Based on this new idea that is marching towards the internationalization of commerce and its liberalization, the most expansive global agreement for trade liberalization was reached on April 14, 1994 with the signing of the GATT (General Agreement on Tariffs and Trade) in Marrakesh by 109 countries out of an original 124, after the completion of 7 years of difficult negotiations known as the Uruguay Round.

The WTO was created within the framework of this agreement, in order to oversee and apply the reforms called for in the general agreement. This organization will represent the third foundation of international economic relations that are affiliated with issues of commerce, with the International Monetary Fund that addresses monetary issues and the World Bank tackling global financial matters. With the establishment of this third institution, the track of economic globalization is completed and with it total caretaking of the global capitalist system.

What the WTO is trying to fulfill, is providing an international system with known and transparent rules that enable it to coordinate worldwide commerce between its member states in such a way that the rights of everyone are protected. This is occurring in an atmosphere where the globalization of economy has led to abandonment of a portion of national sovereignty in favor of the global economy, since this international framework provides guarantees for all economies and particularly the smaller ones, to reach other nations' markets freely and without obstacles. At the same time, it grants these states the capability to implement protective procedures from those who violate them economically through the WTO's Dispute Settlement Body.

The WTO has five major functions:

- 1- Application of the different conventions and agreements.
- 2- Working as a platform for multilateral trade negotiations.
- 3- Quickly resolving any trade disputes that may arise between members.

- 4- Controlling economic and commercial policies.
- 5- Collaboration with other international institutions such as the International Monetary Fund to ensure the progress of international trade of financial and monetary policies consistently in the same direction.

The previous seven rounds of Uruguay had a big impact in reducing customs tariffs from 40% in the late 1940's to 5% in the Tokyo Round in 1979. The rounds also laid down the rules that included bases of support, compensatory measures, technical assistance for trade (standard specifications), processes for importing licenses, government purchases, customs values and anti-dumping actions. Yet the Uruguay Round is considered the most comprehensive because in addition to focusing on issues such as liberalizing international trade in commodities and the mechanism of removing restrictions that limit the flow of global commerce, the round also sought to introduce new topics such as:

- services and investment
- intellectual property (IP)
- applying the GATT regulations in two major sectors of global trade which are agricultural products and textiles, which remained controlled by exceptional arrangements that didn't confine to the GATT rules.

It is anticipated that the Uruguay Round agreements –after their complete execution- will lead to increased economic efficiency and prosperity, from the global, national and sectors' perspective. It is more than likely that improvement in economic prosperity in developing countries will occur through:

- 1- An increase in the ability to compete in both exporting markets and local markets
- 2- Increased transparency
- 3- Achieving a higher level of integration between markets in the fields of commodities, services and investments

