



THE NEW SILK ROAD: TIME FOR AN ARAB-ASIAN FREE TRADE AREA?

*Yang Razali Kassim**

12 April 2007

ON TWO counts, the March 27-28 Arab League summit in Riyadh could be the beginning of a turning point in the tumultuous history of the Middle East post-1948. The first is the political and diplomatic push for peace with Israel led by the 22-member grouping's current leader, Saudi Arabia. King Abdullah bin Abdul Aziz's revival – with no further concessions to the Israelis -- of his 2002 land-for-peace proposal not only showed the seriousness of the Arabs to resolve the root of the Middle East conflict. More importantly, it meant the Arab world capturing the initiative from the West to define and shape its own region, and possibly rolling back external intervention. The second is the much underplayed, but no less significant, drive for economic integration through a pan-Arab free trade area.

On both counts, we should take note of an increasingly assertive Saudi Arabia, the Arab world's most important country, playing the role of the new *primus inter pares* – the first among equals. Under the stewardship of King Abdullah, the Arab world is showing signs of new seriousness to transform itself from a divided and insignificant bystander in its own backyard into a possible giant in the making.

If the Arab world could overcome its internal divisions and rally behind a common vision, as the Riyadh summit had called for, the world could see the beginning of the end of the Middle East conflict -- no matter how remote it may seem now. A revived Middle East that ushers in peace to the region will also bring prosperity to the rest of the world. An emergent Middle East, shaken out of its slumber post September 11, could use its abundant oil wealth to become the next rising economic power, after China and India. This is where other regions like ASEAN, and countries like Singapore, must not fail to take notice.

Greater Arab Free Trade Area (Gafta)?

While the land-for-peace proposal may take time to bear fruit, especially if the Israelis are less than serious in their response, it is already showing signs of triggering some movement in the peace process. Equally important here is the political resolve displayed by the Arab world and the Saudis as a regional playmaker – at a time when leadership is most needed in the region. Such firm display of resolve on the political and diplomatic front raises confidence of a similar positive effect on the economic front. The Saudis are clearly the current big brother in the Arab and Muslim worlds. Given its economic might and strategic role, the Saudi voice must be taken seriously not just in the Arab League but also in all the key forums where it is involved, such as the Organisation of Islamic Conference (OIC) and the Gulf Cooperation Council (GCC). An emergent Saudi Arabia in the Islamic world will have a multiplier effect on these overlapping platforms. Thus, should the Saudis succeed to significantly influence the Arab League to move with greater purpose from now on, the group could well drive the incipient economic revival of the region, currently being motored by the

six GCC states of which Saudi Arabia is again the leading player. The other GCC members are Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates (UAE).

The Riyadh summit's declaration includes several strategies for economic integration that have gone unnoticed. As reported by the Saudi Gazette, it called for the establishment of a customs union, starting with an Arab free trade zone, for which the GCC is already taking the lead. Non-tariff barriers would be gradually removed. Restrictions on inter-Arab capital movement would also be eased. A less restrictive foreign direct investment policy would be pursued. A network of communication infrastructure such as roads and modern railways would also be built to link the Arab world through government-business partnerships. To buttress all this, skilled labour would be freed up for greater mobility among Arab countries. Lastly, nuclear energy would be harnessed to promote the economic growth of the Arab world.

The pursuit of Arab economic integration is actually not new. Initial attempts began as early as 1953 with the Treaty of Transit Trade, followed by a 1964 agreement to form an Arab Common Market involving Jordan, Syria, Egypt, Iraq and Libya. All these efforts could however not be realized because of economic and political divisions within the Arab world. In March 2001, at the Arab summit in Amman, the decision was taken to step up efforts to create a strong Arab economic bloc. Six months later, the Arab League met in Riyadh to push for the formation of the Greater Arab Free Trade Area (Gafta). Gafta became a reality after the September 11 catharsis when it was officially formed in January 2005. Its key goal is to increase the economic interdependence among Arab states to help boost the region's stability and security.

Gafta and the World

In other words, the aftermath of September 11 provided the catalyst that pushed the Arab world into a fundamental rethink of its place in the world. The restrictions in the West, especially the US, on all things Arab and Muslim led to a major "Look East" policy that diversified Arab attention from the West towards Asia. The Middle East also found itself giving greater priority to its own growth and development, as seen in the formation of Gafta. Although not much is known yet of this grouping outside the Middle East, its goal is clearly to be a major economic bloc – not unlike the ASEAN free trade area or AFTA.

ASEAN aside, Gafta's emergence also comes at a time when the world is witnessing a flurry of FTAs. For example, in 2005, Egypt and Russia agreed to set up a bilateral free trade zone. The European Union also announced that it would start talks with nine states from the Middle East and North Africa to establish a free trade zone.

The significant potential of an Arab free trade powerhouse can best be felt by imagining the impact of the Middle East at the height of the Islamic civilization in the earlier centuries. The Middle East was then a centre of global trade and commerce linking Asia with Europe. This has given rise to the famous overland Silk Road and the Spice Route linking sea-borne trade between the major economic zones of the world at that time.

Singapore, ASEAN and the New Silk Road

Today, the resurgence of the old trading routes is palpable as the Middle East, and the Arab world in particular, begin to rise from the ashes of September 11, causing ripples across the globe. The world now talks of a "New Silk Road" linking the Middle East with Asia. Note how Malaysia has positioned itself firmly for this by becoming a hub for Islamic finance. Significantly, the US does not want to be left out either. In 2003, just two years after

September 11, Washington talked about the historical role of the Middle East in global trade and commerce. The US proposed a series of bilateral free trade arrangements (FTAs) for Middle East nations, which it hoped would eventually meld into what it called a Middle East Free Trade Area (Mefta). Already, the US has FTAs with three regional countries (Jordan, Morocco and Israel) and is finalizing similar agreements with three others (Bahrain, Oman and the UAE). Robert Zoellick, then the US Trade Representative, described the Middle East as the historical “pre-eminent bazaar” of the world. Renowned for its commercial prowess that lay at the centre of the Silk Road from Europe to China, the Middle East, he said, was now charting a new future.

Singapore too has jumped into the bandwagon with a flurry of high-level visits to the region, starting with Saudi Arabia. Albeit a latecomer, Singapore has joined the rush to embrace the Arab world and the Middle East with several FTAs either done or in the making. Albeit Gafta has still some way to go. What Singapore can do next is to ride on the economic emergence of the Middle East by pushing for a free trade bridge between ASEAN and the Arab bloc through the GCC or Gafta – in the same way that it has done for ASEAN’s other major trading relationships such as China, India and the EU. The New Silk Road is just opening up; more is yet to come.

* *Yang Razali Kassim is a Senior Fellow with the S. Rajaratnam School of International Studies, Nanyang Technological University.*