EIR Political Economy

Conflict at Amman summit: free trade or development?

by Muriel Mirak-Weissbach

After six months of frenetic preparations, Jordan rolled out the red carpet on Oct. 29 for almost 2,000 guests, political leaders accompanied by businessmen and press, who had traveled there for the Middle East and North Africa (MENA) economic summit. The city had been spruced up for the occasion, as newly painted yellow- and black-striped curbstones and freshly planted shrubs decorated the roads. Most significant were the white banners stretched across the streets carrying slogans in Arabic and English, to announce the leitmotiv of the three-day international conference: "Economic development is the key to peace," "Investing in MENA is investing in stability," and "Peace brings prosperity." Such noble ideas, particularly the central notion that peace can be secured only through economic development, are indeed rare in today's world, which has effectively outlawed the idea of growth or progress. Thus the promise held out by the World Economic Forum (WEF) and the host Jordanian government, was grandiose. Whether or not that promise will be fulfilled, will depend on how the noble words will be translated into noble deeds.

The initiative, which came as a follow-up to a similar conference held in Casablanca, Morocco, one year earlier, enjoyed the political support of powerful forces, beginning with the American and Russian Presidents, Bill Clinton and Boris Yeltsin, who figured as co-sponsors. The conference was held under the patronage of His Majesty King Hussein. Representing Clinton and Yeltsin in Amman were Secretary of State Warren Christopher and Trade Secretary Ron Brown, and Foreign Minister Andrei Kozyrev, respectively. Japan, Canada, and the European Union also supported and endorsed the conference. Among the 63 nations represented were the Europeans—east and west—as well as Japan, Thailand, Indonesia, China, Pakistan, and India, and much of the Arab world. Conspicuous by their politically motivated absence were Lebanon and Syria, which have not yet joined the peace process, and Iraq, which was excluded. Israel, which had debuted in a conference with the Arabs at Casablanca, brought a high-ranking government delegation headed by Prime Minister Yitzhak Rabin and Foreign Minister Shimon Peres, joined by over 80 others. Palestinian National Authority (PNA) President Yasser Arafat led a delegation including many ministers and persons active in the economic sphere.

Free traders call the shots

As conference organizers stressed in the weeks leading up to the summit, Amman was to outdo Casablanca, by consolidating contacts between regional actors and outside investors, in the form of actual contracts for concrete projects. Although a certain number of deals were announced, this does not in itself determine the success or failure of the meeting. More important, was the economic policy debate which emerged around the question: *What kind* of investment should the region have, to achieve peace?

In a series of thematic sessions, specific projects were discussed by those directly interested; finally, were the national projects, prepared by the countries of the MENA region: Egypt, Bahrain, Israel, Jordan, Morocco, Palestinian Authority, Tunisia, and Qatar. Each of the projects has its merits; yet, there is a conceptual flaw in virtually all of them, which, like the worm boring through the rosebud, threatens to hinder its blossoming.

The name of the flaw is "free-market economics," especially the idea that unregulated investment from the private sector can provide the basic infrastructure—transportation, energy, water, and communications—required to develop an economy. Although plenty of room exists for private enterprise to contribute, history has proven in every documented case of successful industrialization, that it comes about through the application of dirigistic methods, by sovereign governments and their national banking institutions.

At Amman, it was the free marketeers who were calling the shots, defining economic policy parameters. Addressing a panel on "The Economic Climate," Stanley Fischer, first deputy managing director of the International Monetary Fund (IMF), complained that "some Middle East and North African countries . . . are among the most protectionist in the world." Fischer called for "domestic deregulation and the liberalization of trade and payments regimes," which he characterized as "two sides of the same coin." "The emphasis must be on a private sector-led outward oriented economic strategy, with a more dynamic export performance," he said. He also called on participating countries to "increase competition by removing barriers to foreign entry into banking and capital markets."

Paul Volcker, who as Federal Reserve chairman in 1979, jacked up interest rates, thus throwing the Third World into a terminal debt crisis, spoke at the conference in the name of the Middle East Economic Strategy Group. This entity, which had been founded under the auspices of the New York-based Council on Foreign Relations, on the recommendation of the Casablanca conference, is one of the institutions, overlapping the IMF, World Bank, and the Davos, Switzerland-based WEF, which led the campaign for free-market policies. The group calls for "step-by-step removal of trade barriers, beginning with reforms in the agricultural and high-technology sectors."

The conference's final session summed up the free-market doctrine, in a series of "seemingly simple demands, which in practice could involve radical change," which WEF President Klaus Schwab outlined as demands on governments: "Eliminate all trade restrictions. . . . Foster broad acceptance of a free-market mentality which views profit-making as a virtue. . . . Lifting all controls from prices to foreign exchange to interest rates. . . . Accelerating privatizations," and so forth. Coherent with this line of thought, the two economies of the region which were held up as models, were Tunisia and Morocco, both of which have followed IMF recipes, and are oriented fully to tourism.

Dispute over nuclear energy policy

Despite the seemingly ironclad control that the free marketeers had over the plenary sessions and workshops, which representatives of the IMF, World Bank, and Davos often chaired, a contrary policy outlook did emerge, challenging the liberal economic doctrine.

In workshops on water and on energy, an animated debate broke out when the use of nuclear energy was proposed, to power desalination plants. Dr. Munther Haddadin, former adviser to the Jordanian delegation in the multilateral negotiations, rejected the idea out of hand, citing the common, yet scientifically unfounded prejudice, that nuclear technology is "by definition" unsafe. During a workshop on regional energy grids, the issue was raised again. Palestinian Finance Minister Mohammed Nashashibi commented that the Dead Sea-Red Sea canal project, which was under discussion at the conference, would be economically viable, not as a source of hydraulic energy, but rather as a vehicle for large-scale desalination. Nashashibi said that such an application to the canal could solve the region's acute water supply shortage. "What kind of energy is the cheapest, cleanest, and most efficient for this application?" he asked, implying nuclear.

The problem, it became clear, is political. Jordan Electricity Authority Director General Mohamed Arafeh said the issue was "very sensitive" and suggested that the "regional dimension" of the problem be considered. Palestinian Electricity Authority Chairman Abdul Rahman Hamad said simply that the technology would not be used by the PNA. Asked for clarification regarding the U.S. view of nuclear technology transfer, officials denied that there were a policy against it, but voiced "concern for parties interested in proliferation."

The nuclear issue was symptomatic of the dilemma hanging over the Amman summit. Either advanced technologies will be introduced, to revolutionize the economies of the region, and provide infrastructure on the scale required, an option which necessitates a State-directed economic policy and concessional financing, or private enterprise, motivated by the profit principle, will be given responsibility for the task, which it will not be able to fulfill. The paradox became manifest again in remarks made by World Bank Vice President Caio Koch-Weser, who warned that 11 of the 16 MENA countries would pass the "water barrier to growth" within 30 years, unless policies were changed. He said, however, that instead of trying to increase water resources, governments should manage existing resources better, by increasing water-use efficiency and decreasing leakage. Arguing from a profit standpoint, rather than from the standpoint of physical-economic needs, Koch-Weser called for redirecting water from agriculture, which currently accounts for 90% of the region's consumption, to industry, because in the former application it accounts for only 15-20% of GNP. Citing the fact that in Morocco the value added of one cubic meter of water in agriculture is 5¢, but is $25 in industry, Koch-Weser called for increasing water prices. World Bank manager John Hayward stressed that "it all goes back to making a profit," in motivating his bid to raise water prices as well.

Regional gas development

The two policy outlooks locked horns again around competing notions of a regional gas network. Pitted against each other were the Gulf emirate of Qatar, together with its American patron, Enron Corp., on the one hand, and the Italian energy group ENI, on the other. In one of the few consolidated deals announced at the conference, Qatar agreed to ship gas from its North Field to Israel. In the $5 billion deal, to be completed in 2001, Enron will process 5 million tons per year and 40,000 barrels of condensate per day at a plant in Qatar. The liquefied natural gas (LNG) will be shipped to ports, possibly including the Jordanian Red Sea port of Aqaba, and transported further to Israel. The project will provide Israel secure gas supplies, but will do little else for the regional economy.

The ENI project, on the contrary, is a catalyst for broader industrial development. Articulated in a series of phases, to be completed as financing becomes available, the Levante Gas Project "proposes a regional gas transmission system to serve all countries in the Near East" by gathering natural gas from Egypt and surrounding countries, in Egypt, for transmission to Israel, Jordan, the autonomous Palestinian territories, Lebanon, Syria, and Turkey. The transport capacity "will be 13-16 billion cubic meters per year (BCMY) in year 2010, while an initial capacity of 7-8 BCMY will be available beginning in 2003." The project contemplates extending the system, by bringing in Saudi Arabia and other Gulf countries as gas suppliers. The ENI study "proves that the development a regional gas transmission system in the Near East would be functional to eventually bringing gas from remote sources outside the region to the European market." Furthermore, "the Levante Gas project opens the door to an optimization of the size of possible gas transmission systems connecting Central Asia to Europe." The project is, in fact, presented in the context of a study of an integrated transmission system which would also include the Transmed pipeline, from Algeria to Italy; the Maghreb-Europe pipeline from Algeria to Spain (and thence, to northern Europe); the Yamal (northern Russia) pipeline to Germany through Belarus and Poland; the Iran-Europe pipeline; the Turkmenistan-Europe pipeline; the Kazakhstan-Western Europe pipeline; and many more. The cost of transmitting large quantities of gas through such pipelines, the study shows, is far lower than shipment of LNG.

The most striking difference between the ENI approach and that of Qatar-Enron, is manifest in the different effects they will have on overall economic activity. ENI's project requires the development of gas industries along the pipelines, as several executives from the company explained to *EIR* (see interviews). Such gas industries, in turn, will catalyze the development of small and medium-size industries, in each locality. Thus the project goes beyond mere fuel delivery, to provoke industrialization. It is no wonder that Enron Chairman Kenneth Lay expressed irritation at the ENI project, which he commented was "no bible."

The ENI project indeed revives the spirit of the company's founder, Enrico Mattei, who once said, "A treasure, wealth, is not a ton of gold coins, but is resources which can be placed at the disposal of human labor." In the 1950s, Mattei challenged the "Seven Sisters" oil cartels by offering oil-producing countries 75% of the revenues, and by setting up joint ventures with local companies, in which Italian technology would be made available to local manpower, trained by Mattei's technicians. Mattei's conviction was, that the oil-producing countries must be developed, through technology transfer, in order to raise the standard of living and productive power of the labor force. His vision was that of a vast network of pipelines, transporting oil to Europe, which at the same time would function as corridors for development. Mattei's revolutionary approach, which cost him his life, was diametrically opposed to the colonialist idea, that natural resources were there for the looting. Echoes of Mattei's approach can be heard in the Levante Gas project.

The Middle East Development Bank

Intimately linked with the conflict over infrastructure, is the issue of financing. The most controversial item at the Amman summit was the Middle East Development Bank. At the center of a fight for months prior to the conference, the institution was finally brought into being at the conference, along with a Middle East-Mediterranean Travel and Tourist Association, and a Middle East Regional Business Council, all dedicated to promoting private sector investment, particularly in tourism. The MEDB had been contested by Germany and France, in particular, which questioned the need for a new financial institution, and promoted instead the idea of a regional group to identify and coordinate projects, funding for which could be found from existing institutions. To this end, a compromise was reached, whereby the Regional Economic Development Working Group (REDWG), which had functioned in this capacity, would continue and be expanded, its headquarters in Amman, whereas, the MEDB would be based in Cairo.

The conflict, which had been essentially technical prior to the conference, was redefined by the intervention of Lyndon LaRouche, who elaborated the concept of a true development bank in an interview given to a Jordanian newspaper, *Al Aswaq,* the only Arabic-language financial daily in Jordan, which is also distributed in Egypt, Yemen, Iraq, and several Gulf states, put out a special English-language issue for the days of the Amman summit. In the issue appearing on the first day, a shortened version of an *EIR* feature on the conference, and the economic policy conflict raging, was printed. On the third day, an interview with LaRouche appeared, creating considerable discussion (see p. 47).

Among the many banners blowing in the breeze on Amman's streets during the summit, was one that had the message, "Today MENA, tomorrow the world." Indeed, the summit was not only an important step in the discussion process on what the economics of the Middle East and North Africa should be, but the forum for a debate which must take place regarding the policy guidelines for the entire world economy. The next step in the process is scheduled to be the Middle East and Mediterranean economic conference in Barcelona, Spain, in late November.