THE NEW TRADE ROUTES
The Arab World

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Important twists in old relationships

Michael Peel looks at the changing patterns brought about by political tumult and the rising power of China and Brazil

Liberation: oil is emblematic of changing times but beneficiaries are uncertain Getty

When France's President Nicolas Sarkozy and David Cameron, British prime minister, this month soaked up the cheers of Libyan crowds glad of Nato's role in unseating Muammer Gaddafi, the debate inevitably turned to what the European nations might receive in return.

While the leaders insisted the military intervention they drove was humanitarian and not conditional on business benefits, some observers looked to the commercial opportunities that might flow in a country rich in oil and just across the Mediterranean Sea from Europe.

Mustafa Abdel Jalil, chairman of the National Transitional Council whose forces ousted Col Gaddafi from Tripoli last month, hinted that Paris and London would be looked on favourably. "As a faithful Muslim people," he told reporters in the capital, "we will appreciate these efforts and they will have priority within a framework of transparency."

Yet if France, Britain and other western countries do end up reaping a commercial dividend, the outcome will in some ways be as anachronistic as the dictator Libyans have just deposed after almost 42 years in power. For the main trading relationships of the Arab world increasingly look not north to Europe or west to the US, but to the emerging economies of Asia to the east and Latin America to the south-west.

Those trends were well entrenched when this year's extraordinary wave of popular uprisings added yet another patina of commercial change to a region that has been an ever-evolving hub of world trade between east and west for millennia.

The flow of oil from the Middle East has been disrupted by Libya's civil war, while the Gulf's crude producers are grappling with the impact of their own – so far milder – internal political pressures.

The Arab awakening has also had a big impact on the operations of international companies in the region, with some scaling back in response to revolutions but others anticipating new business under countries' fresh political orders.

For now, the political tumult looks like it will lead to an important twist in – rather than a fundamental change to – long-term shifts in the region's trading and investment relationships, many of which are linked to the rise of China, India and Brazil.

Oil, the main source of Arab nations' wealth for decades and the dominant focus of the wider world's commercial interests in the region, is also the most obvious emblem of these changing times.

Most strikingly, China is poised to overtake the US as the main customer of Saudi Arabia, the world's largest crude producer and for long a linchpin in Washington's energy security policy.

In the same vein, Saudi oil exports to India grew sevenfold between 2000 and 2008, the sharpest of contrasts to the now static demand from western markets experiencing economic troubles and trying – if in a modest way – to reduce their dependency on fossil fuels.

The patterns are similar in imports to a Middle East region that includes both some of the world's richest consumers and – through a combination of high ambition, mass poverty and resource shortages – some of its biggest infrastructure needs.

The US continues to run a big trade deficit with the region, despite former president George W. Bush's proposal after the invasion of Iraq more than eight years ago for a decade long plan for a Middle East Free Trade Area. Since then, the US has signed bilateral deals only with Morocco, Oman and Bahrain, the barest of expansions of its already existing agreements with Israel and Jordan.

Contrast that with the 34 per cent rise since 2009 in Brazilian exports to the Arab League to $12.6bn last year, powered by companies such as Embraer, the aircraft maker, which sells executive jets to the Gulf's rich.

The European Union, whose greater proximity than the US to the Middle East gives it even more reason to improve business relationships, has hardly enjoyed more success than Washington.

In May, Catherine Ashton, the EU's foreign policy chief, launched the latest effort to revive the bloc's trade relations with the Arab world, as people's yearnings for political change exploded on to streets across the region.

Lady Ashton's commercial gambit is likely to be one of many attempts to capitalise on an extraordinary series of events whose long-term impact on Arab country trade is still unclear.

In the short term, the uprisings have curbed exports and consumer spending in the affected countries, caused international businesses in the region to mothball their operations and disrupted the cosy relationships some companies enjoyed with autocratic regimes.

Yet, in the longer term, political change could – though this is far from certain – result in healthier economies, deeper and wider consumer markets, and bigger and more transparent business opportunities for outsiders.

For that to happen, Arab countries' new masters – or old regimes that have managed to hold on – will have to instil confidence in their own people that a better economic future is not just inevitable but is reasonably close at hand.

> Turmoil may draw back a business diaspora forced into exile by political persecution but it has also driven out talented citizens

The turmoil in the region may in the long term draw back a business diaspora forced into exile by political persecution or frustration, but it has driven out some talented citizens who may not be opposed to change but are nervous about the degree of upheaval.

As one multilingual Tunisian who fled to become a shopworker in Dubai after Zein al-Abidine Ben Ali, the country's president, was deposed in January, put it: "I am not for the revolution, I am not against the revolution. My country used to be stable, but no more."

Most of all, the Arab world's season of protest is a sign that the region's volatile politics can still complicate even apparently dominant broader commercial patterns.

China and Russia both have work to do to build relationships with the new government in Libya, after they hedged their bets and maintained links with the Gaddafi regime amid growing evidence of its brutality against civilians.

In the newly seceded republic of South Sudan, which voted for independence just as Tunisia's president was being toppled, Chinese oil companies have the task of improving their stock in a country where some are suspicious of Beijing's courting of the Arab leadership in Khartoum.

The apparently inevitable rise of the world's great emerging powers could also yet be confounded by a broader downturn in the Middle East. The warning signs to outsiders range from spending cuts in the United Arab Emirates' eye-catching infrastructure programme, to an energy profligacy so great that Saudi Arabia burns almost as much oil domestically as India, even though its population is less than one-40th the size.

Yet the crucial headline fact remains that countries such as China, India and Brazil enjoy big advantages in the Middle East through their growing economic power, their relative lack of imperialist baggage and the post-financial crisis weakness of their western rivals.

For all the Libyan acclaim for Mr Sarkozy and Mr Cameron, the country – which has a small population and lies on the margins of a large region – has only a bit part in a huge trading game stretching from the Maghreb to Oman at the tip of the Gulf.

The longer-term global economic story suggests the two European leaders and their counterparts in other western capitals will find the commercial going tougher away from Tripoli's warming post-revolutionary glow.

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Consumers Divergent fortunes leave Dubai at the centre of attention

If the entire Middle East was slammed by the global financial crisis, its revolutions of 2011 are, perhaps ironically, creating deeper divides between the region's haves and have-nots – at least in spending power.

States beset by revolutionary fervour are witnessing reduced consumption as their economies falter amid uncertainty – even if, in the longer term, political change could bring deeper, more exciting markets for global retailers.

The divergent fortunes are most apparent in the Middle East and north Africa's two largest consumer markets, Egypt and Saudi Arabia.

Egypt had seen a reduction in retail sales growth from 11.9 per cent in 2007 to 1.1 per cent in 2008. The recovery in 2009 and 2010 is forecast to reverse into a contraction of 3.2 per cent this year and flat growth next, according to the Economist Intelligence Unit (EIU).

The political and economic uncertainty in the post-Mubarak Egypt, exemplified by a big drop in tourism numbers, has combined with high inflation and a weaker currency to make imports even more expensive.

By contrast, in Saudi Arabia the recovery is in full swing, as the kingdom avoids sustained unrest via a big stimulus package of about 30 per cent of gross domestic product, including wage rises for public sector workers which prompted a spending surge in March.

Samba, a Saudi bank, says consumption remains "robust", with retail sales expanding 26 per cent in July over the year-ago period. While retail sales growth slowed from 12.8 per cent in 2007 to 2.6 per cent in 2009, this year the EIU sees a jump up to 7 per cent growth.

The kingdom's strengthening economy, underpinned by high oil prices, should revive demand across all sectors as the fast-growing youth population drives retail spending, the EIU says in its latest retail report.

At the top end, the region continues to recover, after the global financial crisis in 2009 undermined buying power.

The latest Merrill Lynch/Capgemini Wealth report cited a 10 per cent increase in Middle Eastern and north African individuals with more than $1m in investable assets, with about 400,000 holding 12.5 per cent more wealth, estimated at $1.7bn. Four thousand "ultra wealthy" people have financial assets of more than $30m. Analysts say rising wealth is nourishing the appetite for luxury goods.

Bain & Co, the consulting company, forecast in May a 10 to 12 per cent growth in luxury sales across the Middle East, as emerging markets become the focus of high-end retailers. BMW, the upmarket car maker, saw sales rise 13 per cent between January and August this year.

The fallout from the revolutions has helped the recovery in Dubai, the region's retail capital, after some tough post-crisis years with tourists choosing to holiday in the emirate, where 40 malls dominate social life, especially in the hot summer.

Thriving market for Chinese goods at the Dragon Mart mall in Dubai

Chinese travellers form the fastest growing segment, rising 50 per cent a year since the crisis, replacing weaker growth from more established populations from the UK and continental Europe. Chinese businesses are becoming increasingly involved in Gulf markets, especially the United Arab Emirates, where rising numbers are basing themselves as launch-pads for the Middle East and, for some, Africa.

The thriving market for Chinese goods can be seen in the bustling, well established Dragon Mart mall in Dubai and the more recently opened China Mall in the small emirate of Ajman. But, beyond the mass market, luxury retailers are particularly excited at the disposable income on ostentatious display by many of these large groups of Chinese tourists.

Dubai, with its relaxed lifestyle, has also acted as a bolt-hole for wealthy residents of countries beset by revolution. Luxury retailers say sales in places such as Egypt, Tunisia, Libya and Syria – which had been on the rise as markets in their own right – have now fallen, as economic uncertainty follows political revolt. "People had been becoming more comfortable spending in their own countries, but the events have caused less conspicuous consumption there," says one brand manager. "But Dubai has become stronger and a regional safe haven."

Simeon Kerr

Politics in the way of ambitions in Asia

Oil supplies

Switching flow from west to east is complicated, says **David Blair**

Ali Naimi, Saudi oil minister

During 16 years at the pinnacle of the global energy industry, Ali Naimi, the Saudi oil minister, has become a veteran opener of refineries. But when he inaugurated a newly expanded facility in Fujian province on China's east coast in 2009, this was far from a routine occasion.

The establishment of this refinery, built by Saudi Aramco, the kingdom's national oil company, served to symbolise a crucial change in the pattern of global oil supplies.

The Fujian refinery, capable of processing 240,000 barrels of crude a day, was designed to handle Saudi Arabia's exports to China. And in 2009 – the same year as the refinery's expansion was completed – Saudi Arabia sold more oil to China than to the US.

For the first time, China became Saudi Arabia's biggest customer, buying just over 1m b/d of the kingdom's crude, compared with an average of 990,000 b/d sold to the US.

"Ten years ago, China imported relatively little crude oil from us," said Mr Naimi at the refinery's opening ceremony. "Now, it is one of our top three markets, and is the fastest growing market for us globally."

This, added Mr Naimi, showed the "depth of Saudi-Chinese relations" and opened "wider horizons of co-operation between the two countries in the petroleum and petrochemical areas".

The ceremony illustrated perhaps the most important trend governing world oil supplies. When tankers lift their cargos of crude at the great export terminals of the Gulf, they increasingly travel eastward to the rapidly growing economies of Asia, rather than to the established markets of the west.

This trend becomes all the more significant when set in historical context. The oil industries of the biggest producers in the Middle East were originally created by western investors with the sole aim of serving western consumers.

George Reynolds, a British geologist, made the first oil discovery in the Middle East when he drilled a successful well in south-western Iran in 1908. British capital and expertise then built the Iranian and Iraqi oil industries and the first export facilities in the Gulf.

Americans drilled the first wells in Saudi Arabia and the US was a crucial player in the kingdom's domestic oil industry until the final nationalisation of Saudi Aramco in 1980.

The moment when Saudi oil exports to China permanently overtake those directed to the US has not quite arrived. China bought more Saudi crude in 2009, but the kingdom's exports to its traditional ally ticked up above 1m b/d again last year, meaning that the US returned to first place in the league.

But the trend is clear: China will soon become the biggest purchaser of Saudi oil.

Saudi Arabia is also selling more to India, the other Asian giant with a rapidly growing economy. Saudi crude exports to India grew sevenfold between 2000 and 2008 and the kingdom now provides about a quarter of India's oil.

Meanwhile, total demand for oil is flat in the US and Europe, where weak economic growth and better energy efficiency have combined to lower dependence on fossil fuels.

But the general picture of oil flowing east rather than west is complicated by two twists.

First, the big producers are consuming more of their own oil. Saudi Arabia, in particular, is recording explosive growth in domestic energy demand, thanks to a growing economy and generous subsidies, which hold down the retail price of petroleum and gas.

The kingdom, with a population of 25m, consumed

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Red carpet treatment to foster closer business ties

China

Leslie Hook attends a conference in a remote Muslim town aimed at boosting trade

In the city of Yinchuan, the airport is full of headscarves and *keffiyehs*. It is a surprising sight in this small town in Ningxia, a remote region of China that does not often take a turn on the international stage.

The thousands of Arab businessmen and officials who flocked to Yinchuan are part of a renewed push by China to cultivate trade ties with the Middle East at a time when concerns over the European and US economies are growing.

Every September Yinchuan – home to China's Hui Muslim ethnic group – rolls out the red carpet for Middle Eastern visitors attending forums and expos, supported at the highest levels in Beijing, with the aim of fostering business ties.

At this year's conference, politburo member Jia Qinglin flew in with good news: China-Arab trade reached a record $120bn in the first half of 2011, up 36 per cent from the year before, despite the political turmoil in the region.

Visiting officials were equally upbeat about China's trade role.

"Many people feel the international economic centre of gravity is moving towards the east," said Mohammed bin Essa al-Khalifa, chief executive of the Bahrain Economic Development Board, addressing one forum. "The rapid development of China has given the country a greater role in the region."

Throughout history, trade between China and the Arab world has covered a range of goods. Trade in Chinese silks gave rise to the expression the Silk Road, referring to the overland route taken by trade caravans travelling to and from China.

But today, it is a different trade that dominates, with energy accounting for about half of China's trade with the Middle East during the past 15 years, according to government figures.

Officials from both sides say they want to see non-energy trade increase in coming years, although that has proved difficult so far.

"We hope to expand our relationship to non-oil products," Wang Shouwen, head of the department of foreign trade at the ministry of commerce,

Sheikh Khalifa represented the Bahrain Economic Development Board in Muslim Chinese town

said in a speech in Yinchuan. "Arab countries are undertaking big infrastructure projects, which represent good opportunities for Chinese companies."

Mr Wang also has a vision for Chinese companies to look to the Middle East as a manufacturing base, drawing on the human and natural resources there to build businesses that will then export to third countries.

At present, the bulk of China's exports to the Middle East are textiles and consumer goods. Meanwhile, Middle East exports to China are primarily energy-related, although there are also growing exports of resources such as fertiliser, aluminium products and marble.

"To a large extent, the trade relationship between us is still China using manufactured goods to trade for our oil and gas," says Sheikh Khalifa.

"But this equation cannot fully explain the future of our relationship . . . The China-Arab relationship will exceed simply oil and gas trade."

He believes that sectors such as services, human resources, and finance will play a bigger trade role in future.

But, regardless of the sector, trade between China and the Arab world has been growing extremely fast. When the annual Yinchuan meeting started seven years ago, bilateral trade stood at $36.4bn. Last year, it had increased to four times that amount at $145.4bn.

Even as trading relationships grow in absolute numbers, there are questions over the extent to which business will actually diversify as much as government officials hope it will.

One area for potential growth is cross-border investment, with Middle Eastern sovereign wealth funds on one side, and Chinese policy banks on the other.

"While trade relations are strong, investment relations are still weak but that is changing," says Ben Simpfendorfer, managing director of Silk Road Associates, the Hong Kong-based consultancy. He points out that ties of faith can also provide a basis for economic links. "The rise of China-Middle East trade is also about the rise of Islamic economies," he says.

Meanwhile Ningxia, which is roughly one-third Muslim, is not wasting any time jumping on the bandwagon.

The region hopes to become a centre for exports of halal food and Middle Eastern clothing, and is using events such as the Yinchuan conference to promote ties with the Middle East.

The trouble with difficult neighbours

The EU

Joshua Chaffin finds fault with both sides in an uneasy relationship

Back in May, in the full blossom of the Arab spring, Catherine Ashton, the European Union's foreign policy chief, put trade at the centre of the bloc's offer to a nearby region whose citizens were yearning for greater freedom and prosperity after decades of stagnation.

Specifically, she promised lower tariffs and greater market access to countries that delivered good governance and democratic reforms. "The EU needs to rise to the historical challenges in our neighbourhood," she declared.

While that sentiment was broadly applauded, some European trade specialists could not help but grimace.

To them, Lady Ashton's proposed revision of the EU's "neighbourhood policy" was just the latest in a long line of misguided attempts to rely on trade to shape policy in the region.

Before the new neighbourhood policy, the EU threw its weight behind the French-inspired Union for the Mediterranean, which was preceded by the 1995 Barcelona process, which followed a number of associations and free trade agreements.

"The EU has signed a lot of free trade agreements with these countries. But the problem is that many of the agreements themselves were not very good, and they were not designed to help those countries grow through exports," says Fredrik Erixon, director of the European Centre for International Political Economy, a Brussels think-tank. "The ambition to try to do something on the trade side has been failing, and it's been failing for a long time."

Even diplomats who spent large parts of their careers creating those policies acknowledge that they have yielded few of the hoped-for benefits – a reality confirmed by the uprisings themselves.

Whether it was mismanagement or misconception, or a lack of support in the region, that history of failure is a reminder of the limits of trade in a broader development policy.

Unfortunately for the EU, the lure of trade to further broader policy goals is almost irresistible. While the bloc's military power is waning, it boasts a 500m strong consumer market that is the envy of the exporting world. As Lady Ashton made clear, north Africa represents a particularly urgent case: The region sits on the bloc's doorstep. If Europe fails to encourage prosperity and stability, then policymakers fear that the trickle of refugees that have taken to the Mediterranean Sea in recent months could soon become a flood.

Trade is all the more appealing to EU policymakers since they cannot wave the prospect of near-term membership before north African countries to nudge them toward reform, as they did in eastern Europe after the fall of communism.

But if trade concessions are alluring, they are often fraught with complications. A case in point is Pakistan. In the wake of last year's floods, Lady Ashton called for a temporary suspension in a range of tariffs that would benefit Pakistani exporters.

> EU foreign policy chief put trade at the centre of an offer to citizens wanting freedom

The policy ran into resistance in Italy and France, where the textile industries were furious. With considerable UK support, Ms Ashton overcame their opposition – only to see the proposal run aground at the World Trade Organisation amid protest from Bangladesh, which did not want to see its EU preferences undercut.

European diplomats who have studied the past failures in north Africa cite a common misconception that lowering tariffs alone would be enough to promote development. This overlooks other vital preconditions – from a minimum level of good governance to property rights and a functioning legal system. Decent infrastructure and skilled workers would also help.

Another EU complaint is that past initiatives suffered because the parties across the table may not have been interested. Autocrats such as Egypt's Hosni Mubarak and Tunisia's Zine El Abidine Ben Ali may have had more to gain by keeping out foreign competition, so that a handful of domestic businesses with close links to the regimes could reap greater profits.

Still, there are areas where the EU could do more. The most obvious would be to reduce tariffs on agricultural goods. These are the areas where north African countries would have a distinct competitive advantage. Yet they have been largely excluded because of deep opposition from the southern EU members, including France, Spain and Italy, whose farmers have the most to lose.

In March, Karel de Gucht, Europe's trade commissioner, suggested a "zero for zero" agreement on agricultural tariffs: The meat and grains that are the strength of European producers would have full access to north Africa, whose fruit and vegetables could come north. But the response has been predictable. "Right now, the idea has not fallen on fertile soil," the commission official said with considerable understatement.

Efforts to open the EU's services industries to north African countries are also complicated by the continent's deep discontent over illegal immigration, which has become a big issue in national elections.

Member states are loath to give short-term visas to foreign workers, when they fear they might try to overstay them.

The trade barriers in the services sector have the added detriment of depriving businesses in north Africa of modern information technology and telecommunications infrastructure.

With trade prospects looking difficult, some European diplomats are putting their faith in investment agreements, instead. Their hope is that, by providing soft loans from the European Investment Bank and better legal protection, then the Nikes and Adidases of the world might one day be encouraged to invest in Tunisia instead of Vietnam.

But that idea supposes that the new governments that emerge in these countries will be welcoming to western multinationals – something that is hardly certain.

In the meantime, Mr Erixon worries that the debt crisis that has ravaged the continent for more than a year and pushed up unemployment may make it impossible for European governments to make the case that the long-term benefits of freer trade with their southern neighbour outweigh short-term costs.

African arrivals: if Europe fails to encourage prosperity, policymakers fear trickle of refugees could become a flood Getty

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Region banks on its adaptability

Latin America

Samantha Pearson reports on a 'shared etiquette' among blocs

When Iran last month finally eclipsed Russia to become the biggest buyer of beef from Brazil, the world's top exporter of the meat, many outside the market were caught by surprise.

Brazil's controversial relationship with the Iranian regime, especially under former President Luiz Inácio Lula da Silva, has long angered Washington.

However, commercial ties between the two countries have remained less well known.

Brazilian exports to Iran surged more than sevenfold between 2000 and 2010, hitting $2.12bn last year, as slowing growth across the developed world forced the Latin American country to look further afield for trading partners.

Elsewhere in the Middle East, trade is expanding just as fast. Arab countries have also proved an invaluable source of income, with Brazilian exports to the Arab League reaching $12.6bn last year, up 34 per cent from 2009.

In spite of disruptions caused by the political upheavals of the recent Arab uprisings, the trading relationship between Latin America and the Middle East is expected to get ever stronger and more diversified over the coming years.

"Did the Arab spring cause any damage to business? The only outstanding issue is the Libyan blockade. Although Libya is not a big trading partner, it is still an important buyer of foodstuffs," says Michel Alaby, director of the Arab-Brazilian Chamber of Commerce (CCAB).

"However, in all the other countries, such as Tunisia, Egypt, Bahrain, Yemen, this didn't happen. In fact, quite the opposite is true – exports just keep growing," he says.

Trade between the two regions is largely focused on Latin America's commodity exports. In the case of Iran, Brazilian exports to the Middle Eastern country totalled $1.6bn between January and August this year, with beef accounting for about 32 per cent of shipments, followed by sugar and grain.

In return, however, Brazil imported only $22.5m of goods from Iran during the same period – almost 90 per cent of which was polythene.

In fact, Brazil's top exports to Middle Eastern countries are all commodities. Sugar is the country's biggest export to Egypt, Tunisia, the United Arab Emirates and Yemen, while it is iron ore in the case of Saudi Arabia, Bahrain and Oman. In return, Brazil mostly just buys oil.

> Willingness to do business, even with unsavoury regimes, has fostered stronger trade links

Similarly, Argentina and Uruguay have become important sources of wheat for the Middle East, with sovereign wealth funds playing an important role.

Qatar and Abu Dhabi have been the most active in the region over recent months, as the barren Gulf area looks to the fertile lands of Latin America to feed their growing populations.

This year, for example, Al Gharrafa Investment, a unit of Qatar's sovereign wealth fund, increased its stake in Adecoagro, a farmland venture based in Argentina, Brazil and Uruguay.

Chile has also become an important agricultural powerhouse for the region and, like many other countries in Latin America, in turn invests in the production of fertiliser in the UAE. In March, Chile also signed a free-trade agreement with Turkey as a way of opening the door for Chilean agricultural exporters to the Middle East.

"It's a concentration of a small number of products really, but they are products that are very well established in the Arab market," says Mr Alaby.

The challenge, he says, is for Latin American countries such as Brazil to sell more "value-added" and industrial products to the region. For example, in November, the CCAB will accompany a delegation of Brazilian companies to the "Big 5" Dubai building show in the hope of taking a bigger share of the Gulf's construction boom.

However, there are signs that a new, more complex, trading relationship is beginning to emerge.

Embraer, the Brazilian aircraft manufacturer, has established a strong presence in the region, largely by selling executive jets to the Gulf's rich.

"Food, mining, and then engineering and technology, such as aircraft from companies such as Embraer, will be the main exports in the coming years," says Daniel Melhem, president of the Gulf Latin America Leaders Council.

"The other thing that Middle Eastern investors are looking for are brands," he says, adding that so-called merchant families, which already own the franchises of businesses such as Starbucks, are turning their attention to restaurant and clothing chains in Latin America.

Brazilian steakhouses, known in Portuguese as *churrascarias*, have become particularly popular, as has the Argentine clothing chain, La Martina, which has stores in Dubai, Kuwait and Lebanon.

Willingness to do business with even the most unsavoury of regimes, as demonstrated by Brazil's controversial relationship with Iran, has fostered stronger trade links.

But both regions also share similar business etiquettes, says Mr Alaby, which could help Latin America develop a more profound role in the Middle East over the coming decades.

In particular, Brazil's own turbulent history of hyperinflation and currency crises has prepared the country well to deal with the rapidly changing circumstances and demands of the new Middle East.

"Brazilians are flexible when they negotiate, which means that Brazil can conquer more space [in the market] than other countries," Mr Alaby says.

"In general terms, Brazilian business people don't impose their product, as happens in other countries, but they adapt to demands, which is very positive and gives the country a big head start."

Rump stake: Iran last month became Brazil's biggest beef buyer

Mission to embrace the region is uphill struggle

The US

Poisonous politics and suspicion have prevented progress, writes Alan Beattie

If there is one thing that US presidents seem to agree on, it is that promoting trade between America and the Middle East will be good for growth and good for peace.

Just a week after his "mission accomplished" speech heralding the end of big combat operations in Iraq in 2003, President George W. Bush proposed a 10-year plan for a Middle East Free Trade Area.

The scheme would knit together up to 20 economies in the region into a web of bilateral deals on trade and investment, encourage countries that were not already members of the World Trade Organisation to join, and build the policy and administrative infrastructure to give all members, not just an open door, but a platform from which they could trade.

Mr Bush wanted to give the impression that his invasion of Iraq was part of an effort to help the region democratise and enrich itself through the free movement of ideas, goods and services.

"The Arab world has a great cultural tradition, but is largely missing out on the economic progress of our time," Mr Bush said.

"Across the globe, free markets and trade have helped defeat poverty, and taught men and women the habits of liberty," he said

"So I propose the establishment of a US-Middle East free trade area within a decade, to bring the Middle East into an expanding circle of opportunity."

Eight years later, as the Arab spring swept through the countries of the region, Barack Obama, Mr Bush's successor in the White House, hit on an oddly familiar idea: a trade and investment framework that would knit together the economies of the region.

"The goal must be a model in which protectionism gives way to openness, the reins of commerce pass from the few to the many, and the economy generates jobs for the young," Mr Obama said.

The unfortunate reality is that although the US has signed a few bilateral deals in the region, the idea of a broad trading area linking the Arab world to the American economy remains a distant one.

A combination of the poisonous politics surrounding trade pacts on Capitol Hill and suspicion from Middle Eastern countries have conspired to prevent progress.

There is no shortage of oil coming back the other way, but the US continues to run a large trade deficit with the region.

Eight years after Mr Bush set forth his ringing declaration, the US has signed bilateral deals only with Morocco, Oman and Bahrain, in addition to the ones it already had with Israel and Jordan, and created special zones allowing some Egyptian companies to export goods to the US with a certain percentage of inputs from Israel.

Other economies in the region have a framework agreement in place with the US, but they have little impact.

Saudi Arabia, which had already been in talks for more than a decade, joined the WTO in 2005, though that has had little effect in diversifying an economy still overwhelmingly dominated by oil.

"The Middle East Trade Initiative has fallen somewhat short," says Liesl Riddle, an expert in trade and investment in the region at the George Washington University business school. "The list of countries is a lot smaller than expected".

In fact, whether trade deals are in place or not, US companies in the region have often been shoved aside by Chinese and Indian exporters providing the consumer goods that Middle East oil exporters demand – aided by the emergence of Dubai and other trade and commerce hubs used by Asian companies.

Prof Riddle points out that China is catching up with or has already overtaken the US as the biggest exporter, even to countries with which the US has bilateral pacts.

A trade outlook report by the National US-Arab Chamber of Commerce published this year concluded: "China, India, and others are not only eating our lunch in the Middle East and north Africa region, they are looking to plan the menu for the foreseeable future."

> US companies in the region have often been shoved aside by Chinese and Indian exporters

David Hamod, president and chief executive of the chamber, said: "When relations with the US soured after the tragic events of 9/11, it was logical for the Arab world to look east. These relationships throughout Asia are flourishing and, in some cases, displacing US firms."

Chinese exports to Arab countries already exceeded US exports by 2007, and, by 2009 India had a 24 per cent share of the Arab import market, gaining fast on the US, whose share was 29 per cent and set to fall further.

The chamber identified some areas in which US companies were strong and had potential for increasing exports and foreign direct investment: building infrastructure, energy development and downstream petrochemical products, consumer spending including air travel, which benefited US aircraft manufacturers, and defence spending.

But the US still faces an uphill struggle in increasing its trade with a region that has increasingly turned east.

Crown Prince Mohammed bin Zayed al Nahyan of the UAE meets President Barack Obama at the White House Getty

Politics in way of ambitions in Asia

Continued from Page 1

3.18m b/d in the third quarter of 2011, according to the International Energy Agency. This was only slightly less than the 3.25m b/d used by India, with a population of 1.1bn.

The kingdom's astonishingly wasteful use of energy is of mounting concern to Saudi policymakers. A rising share of oil production is now burnt at home, after being sold at lossmaking, subsidised prices, instead of earning healthy profits on the export market. Saudi oil output totalled 9.8m b/d last month, of which almost a third was absorbed by domestic consumption. If this trend continues, the kingdom will have progressively less surplus oil to sell overseas.

The logical answer would be to restrain domestic demand by cutting the generous subsidies which allow Saudis to buy petrol for 12 cents a litre – less than a bottle of water. But the Saudi monarchy, unnerved by the Arab spring, has chosen the opposite course.

King Abdullah has embarked on a populist spending spree, trying to reinforce support for the House of Saud by announcing a package of benefits in February worth $35bn.

Politics also explains the second complication. The Middle East producers might want to sell oil to the Asian giants, but great power rivalries can still get in the way.

Iran, for example, exported 400,000 b/d to refineries in India until the Reserve Bank in New Delhi, fearing US financial sanctions, halted payment for these supplies. Months of negotiation were needed to resolve this difficulty.

Meanwhile, Iran also subsidises its domestic energy prices, providing an artificial boost to home demand.

As in Saudi Arabia, a growing share of its oil output is consumed by its own citizens. Iranian consumers are burning almost 60 per cent of the country's total oil production – about 2m b/d – leaving only 1.5m b/d for export.

The tankers are steaming eastward, but the biggest oil producers may have progressively less crude for them to carry.

Politics, both domestic and international, can still impede their ambitions to fuel Asia's boom.

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Lack of coherence in post-Gaddafi world

Africa

William Wallis reports on the continent's ambivalence

Muammer Gaddafi knows the long road south across the Sahara desert well. In one past theatrical performance he took his motorcade across Niger, Burkina Faso and Ghana to a summit in Togo, a retinue of female bodyguards in tow.

He treated sub-Saharan Africa like his empire, turning his ambition towards it when his Arab peers spurned him and using porous borders and client leaders to thumb his nose at the international sanctions regime in the 1990s. In the impoverished belt of countries south of his own he fomented conflicts with one hand, and lavished petrodollars with the other.

The legacy of Col Gaddafi's peculiar and mixed record of engagement haunts the region now, as some of his closest henchmen head south down the same road into exile and, in the case of one son, Saadi, detention. Africa's ineffectual response to the Nato-backed overthrow of the regime is also partly the result.

Egypt was once one of the main poles of resistance to colonial rule in Africa, and through the 1960s hosted more than a dozen liberation and rebel movements.

But since Egypt began disengaging with sub-Saharan Africa under Hosni Mubarak, Col Gaddafi's Libya became the most potent link between the north and south of the Sahara.

The tides may be turning as Libya post Gaddafi looks back to the Arab world and north to Europe, and Egypt makes a bid to improve relations with riparian states with which it shares the river Nile.

While much of the world has recognised the authority of the new rebel council in Tripoli, the African Union, which groups together 53 member states, has courted irrelevance by suspending Libya until an "inclusive" government is formed. The continent is divided.

Nigeria, which has a long history of confrontation with Col Gaddafi over his sponsorship of west African rebellions, was the first of 21 African states to recognise the legitimacy of the new rebel council in Tripoli.

Rival heavyweight South Africa, on the other hand, is in the curious position of seeming for the second time this year – after Ivory Coast – to leap to the defence of a falling tyrant.

South Africa, which has carried the AU for now, has criticised Nato for abusing the mandate it won to protect civilians to achieve regime change and of undermining African efforts, led by President Jacob Zuma, to broker a negotiated solution to conflict. Nor have southern Africa's former liberation movements entirely forgotten Col Gaddafi's generous support for past struggles.

The Nigerians have scored some points on the international stage for pragmatism. But South Africa's position is probably more representative of African ambivalence about the "brother leader's" overthrow and unease at the role of western intervention.

> Gaddafi fuelled conflicts in Liberia, Sierra Leone, Mali, Sudan and Chad, among other countries

In his efforts first to circumvent UN sanctions and later to unite the continent under his influence, the former Libyan leader built up a network of client governments, politicians and rebels.

His drive to galvanise African unity, underpinned by his own outsized ambitions to become the first president of a putative United States of Africa, helped further the creation of the AU in 2002.

But Col Gaddafi also sewed division, fuelling conflicts in Liberia, Sierra Leone, Mali, Sudan and Chad, among other countries. While he could count on the attentions of many African leaders, he was often humoured or feared, rather than supported.

"People took his money but they didn't necessarily sign up to his ideas," says Adekeye Adebajo, director of the Centre for Conflict Resolution in Cape Town.

For neighbouring countries, the unravelling of the colonel's iron-fisted rule bears immediate dangers. Potentially, it opens up more space for al-Qaeda affiliates in the vast desert between Libya, Algeria, Niger and Mali. The region is already a battleground in which US special forces conduct covert operations.

Then, there is the prospect – alongside the flight of tens of thousands of African migrant workers – of well-armed mercenaries and seasoned ethnic Tuareg fighters who fought on the side of the regime spilling back into their countries of origin as Gaddafi loyalist resistance is squeezed by the rebels.

Among these splintering forces are the remnants of the Islamic legion, a pan-Arab force sponsored by Col Gaddafi to further his past ambition of annexing the semi-desert regions of the Sahel.

Its members fought before in Chad, Niger and Mali and most recently contributed on Khartoum's side to the war in Sudan's Darfur.

Col Gaddafi spent years pontificating about the need for African unity, while covertly exercising the tactics of divide and rule.

It should be no surprise, then, that African countries have proved less than coherent in navigating the aftermath of his mercurial rule.

New flows bring change in direction

Sea routes

Robert Wright on the changing fates of ports and the Suez Canal

When Hosni Mubarak's government first came under serious pressure from protesters this year, it awakened disturbing memories elsewhere about the potential implications.

Unrest in Egypt, many commentators assumed, equated not only to closure of the Suez Canal but also to chaos in international trade.

Oil tankers, especially, might be forced to take a longer route round the Cape of Good Hope to important European and North American markets.

The assumption misjudged both sides in the crisis. While ports closed for a few days at the height of the unrest, transits in the 163km canal, a vital source of earnings for Egypt, were never disrupted.

But the canal's role has also changed. It handles predominantly container ships rather than tankers these days and is becoming less vital for the core of Arab countries in the Gulf and Arabian peninsula. Furthermore, trade with Asia is growing far faster than that with the Mediterranean and northern Europe that comes via the Suez Canal.

That change is part of a transformation of the pattern of goods movements around the Arab world and comes against the background of ambitious infrastructure plans in the region that could bring even further shifts.

Hans-Ole Madsen, head of business development for the Middle East and Africa for APM Terminals, one of the world's largest container terminal operators, says the main question is how fast volumes will rise at different ports, rather than whether some will find themselves neglected.

"Most of the countries are growing consumer markets," he says. "Whether you buy from one place or the other, it doesn't really matter [for the ports]. There are still a lot of consumer markets inside the Gulf. Ships will still sail in there to serve that market."

The sheer scale of the trade between the main Arab markets and the wider world is obvious at Dubai's Jebel Ali port, a vast facility to the north of Dubai City. About half the traffic at the port is trans-shipped between huge, long-distance ships and smaller ones serving the local market.

Mohammed Sharaf, chief executive of DP World, Jebel Ali's operator, says the Arab uprising has changed trade patterns at both Jebel Ali and the company's terminal in Djibouti.

But the change is more subtle than the Suez Canal alarmists had imagined. Container lines have increasingly been using both facilities to shift boxes heading for the most unstable countries to smaller, feeder ships, instead of committing large, long-distance vessels.

DP World facilities have also seen growing volumes as a result of increased investment in parts of the region that have benefited from high oil prices, Mr Sharaf adds. That effect has been particularly intense in Saudi Arabia, where the company operates the container terminal in the port of Jeddah, and in the United Arab Emirates.

Mr Madsen picks out the region's growing involvement in producing petrochemicals rather than simply crude oil and gas as a particular boon for trade. Ships returning to Asia or Europe previously carried mainly empty containers.

Yet long-term trade patterns may depend on the success or otherwise of a series of ambitious infrastructure projects.

The most radical is the Saudi land bridge, a proposed railway to move freight 950km between Jeddah on the Red Sea, and Riyadh, the capital. A further 500km of dilapidated railway between Riyadh and Dammam, on the Gulf, would then be upgraded. The project would theoretically allow ships to drop off at Jeddah containers heading for the Gulf states and avoid the lengthy voyage from the Red Sea around the Arabian peninsula.

Mr Sharaf says DP World would benefit from the railway project because it operates the Jeddah container terminal. A rail line might also boost trade by improving Saudi Arabia's connections to the Gulf.

> Turmoil in Egypt, many assumed, equated to closure of the Suez Canal and chaos in international trade

Yet Mr Madsen suggests the land bridge could prove a relatively expensive way to move goods – and would make little sense for the growing traffic to the east. Such vessels are far more likely to sail to Damman on the Gulf coast than Jeddah.

The Saudi government also appears to be cooling towards the project, after it failed to attract private-sector interest in building and operating the scheme.

Jebel Ali's pivotal role also faces threats from a series of new port projects, either planned or under construction, Mr Madsen says. He expects that Abu Dhabi's vast new Khalifa Port, opening in 2014, should entice shipping lines to move some trans-shipment business from Jebel Ali to the new facility.

However, Mr Sharaf says the Abu Dhabi port will initially be able to handle only 2m twenty-foot equivalent units (TEUs) of containers, compared with the 11.6m TEUs Dubai handled in 2010. The Khalifa Port is likely to be mainly concerned initially with serving the Abu Dhabi market and to complement Jebel Ali.

Despite sometimes intense local rivalries, Mr Sharaf insists he would relish the challenge if Abu Dhabi sought in the long run to mount a serious challenge to Jebel Ali.

Pirates add billions to the cost of world trade

Somalia

Robert Wright reports on the ever-wider reach of 'masters of the Indian Ocean'

When Somali pirates crept aboard the Irene SL and took control of the Greek-owned oil tanker at about 7.30 in the morning of February 7, they caused a shock felt far beyond the vessel's 25 unfortunate crew and their families.

The Very Large Crude Carrier, with 2m barrels of oil sailing from Kuwait to the US's Louisiana Offshore Oil Port, was more than 900 nautical miles off the coast of Somalia and heading south towards the Cape of Good Hope. Its capture proved that Somalia's pirates were able to menace the biggest ships on the world's most strategically important maritime oil transport route.

The pirates have provided copious evidence of their new, wider range since. There have been 33 attacks so far this year, according to the International Maritime Bureau, which tracks piracy, in the previously safe southern Red Sea. Pirates, using previously captured vessels as bases with crews working under duress, are able to strike up to 1,500 nautical miles from their country's coastline.

Pottengal Mukundan, the IMB's director, says there have been 192 attacks on merchant vessels around Somalia so far in 2011, with 24 having led to hijackings. The level of attacks is well ahead of the 127 for the same period during the record year of 2010 – although 30 of the 2010 attacks led to successful hijackings.

It is a state of affairs that, even before the Irene SL's seizure, had prompted Jack Lang, the French former minister who advises the UN on legal issues related to Somali piracy, to warn the Security Council about the outlaws' growing sophistication, range and violence.

"The pirates are progressively becoming the masters of the Indian Ocean," he said in January.

The question is how far the pirates will scare trade away from areas of the Red Sea, Gulf of Aden and Indian Ocean, and how high the attacks will push up the costs of world trade.

"The cost of trade is going to grow," says Mohamed Sharaf, chief executive of Dubai's DP World, which has a series of terminals in the region. "The risks to human life and the costs of doing business will grow unless something drastic is done."

The difficulty is to know how to make any significant impact, short of resolving Somalia's intractable problems. For oil tanker operators such as Greece's Lemos family, owners of the Irene SL, there are few obvious alternative routes to export oil from the Gulf.

VLCCs have never been able to use the Suez Canal while fully laden. No route through the Arabian Sea, no matter how close vessels sail to India, appears safe.

Container ships that are not entering the Gulf can avoid the area on the Asia to Europe route by sailing round the Cape of Good Hope. But that adds time, fuel consumption and cost when most operators are losing money. It also potentially takes ships away from ports such as Salalah on Oman's south coast and the Suez Canal ports further north.

Besides, container ships have mostly proved too fast and too high to board – although there is speculation that pirates are seeking new, longer ladders in the hope of scaling the vessels' high, sheer sides.

On watch: the difficulty is to know how to make any impact, short of resolving Somalia's intractable problems

Hans-Ole Madsen, head of business development for the Middle East and Africa for APM Terminals, says container lines will continue to use the Red Sea and Suez Canal unless there is a "significant escalation" in attacks or tactics. "You will probably see an escalation of safety measures – convoys, armed guards, whatever it may be," he says. "All add to the cost of transport."

> Pirates, using previously captured vessels as bases, are able to strike 1,500 nautical miles from Somalia coastline

Capt Mukundan says owners that have no pressing reason to transit the Gulf of Aden are seeking alternative routes. A report last year by One Earth Future, a Colorado-based governance foundation, estimated that piracy cost the maritime industry $3.2bn a year in extra insurance and $2.95bn to reroute ships round the Cape of Good Hope. It put piracy's total annual cost to the world economy at $7bn to $12bn.

Yet there are hopeful signs among the gloom. A list published weekly by EU Navfor, the European Union's anti-piracy operation, gives details of every incident reported and shows how vessels' increasing preparedness has reduced the number of attacks that end in hijacking. The list provides examples of attacks averted through the use of force, a result of shipowners' increasing willingness to employ armed guards.

Others use "best management practices", the range of anti-boarding and vigilance measures recommended in the pirate-risk area – to explain how an attack failed.

There have only been four hijackings this year in the Gulf of Aden – between Somalia and Yemen, once known as Pirate Alley – due to a heavy naval presence and use of best management practices, Capt Mukundan says.

"The Gulf of Aden has been a relative success story," he says.

The root cause, nevertheless, remains largely unaddressed, says Mr Sharaf, who attended an international conference in April in Dubai intended to address the problem.

"Everybody identified the root cause as Somalia and the people there," he says. "Their standard of living needs to be looked into. There needs to be job creation on the ground there, school education."

Countries are long on initiatives, short on execution

GCC and Maghreb

Little has been done to promote peace and security, says **Simeon Kerr**

The Arab world has for many years been long on initiatives and short on execution.

For all the grandeur associated with intra-regional organisations, the Arab League, the six-member Gulf Co-operation Council and Arab Maghreb Union in north Africa have done little to promote regional trade, let alone peace and security.

While the Gulf's trade flows are dominated by oil and gas, the 75m people in the Maghreb states have always had closer trade ties to their neighbours in Europe than Arab states in the Gulf.

Trade between north African states is lower than other blocs, accounting for less than 2 per cent of the total in the five-member group: Algeria, Mauritania, Morocco, Libya and Tunisia.

Intra-GCC trade in the non-oil sector has traditionally languished at about 10 per cent.

The World Bank has been encouraging both groups to introduce legal reforms and changes to the investment climate to boost regional trade.

But bridging the gap between the Maghreb and the Gulf poses even greater challenges, as both look beyond their neighbours as trading partners.

The Maghreb exported less than 1 per cent of total exports to the GCC, which accounted for 2.5 per cent of its imports, much lower rates than the Middle East and north Africa region as a whole, says Rachel Ziemba of Roubini Global Economics.

The difficulties include tariffs within the region and Maghreb supply chains focused on Europe.

That may mean that Asian economies, such as China, are more likely to benefit from increasing consumption from the oil-rich Gulf, she says.

But the shuddering impact of the Arab revolts has the potential to provide policymakers with an inflection point, allowing a new trade corridor to be created. The quick departures of the leaders of Tunisia and then Egypt inspired revolts that spread across almost the entire region.

After a six-month civil war, Libyan leader Colonel Muammer Gaddafi has fallen.

Algeria introduced limited reforms and financial handouts to end its street protests.

Morocco has gone further, with a new constitution expected passing more powers to elected officials.

In the Gulf, the fall of long-standing western allies has raised alarms amid fears of rising Islamist radicalism and the potential for greater Iranian influence.

The latter prompted Saudi-led intervention in Bahrain and a proposed expansion of the GCC to include their fellow Sunni monarchies, Jordan and Morocco.

Many commentators have doubts about the plan, which aims to broaden participation in Gulf security.

> Difficulties include tariffs within the region and Maghreb supply chains focused on Europe

The linguistic and geographic distance separating Morocco from the Gulf is often cited as a problem, with most analysts saying a tie-up is more likely with Jordan, which boasts one of the region's best-trained armies. But the GCC has set up working groups with Morocco and Jordan, to investigate further the proposal, as well as working towards five-year plans for development in the two kingdoms.

"I believe the transitions in the Middle East will increase intra-region flows, but only if the political transitions are matched with structural reforms in the economies which increase efficiency," says Ms Ziemba.

"At present, many of the north African countries, like those of the GCC, are unable to compete with other producers of low and medium-technology products."

There are delayed projects and promised investments that could be revived. Saudi Arabia and the United Arab Emirates are the biggest Arab investors in the Maghreb.

Towards the tail end of the Gulf's real estate boom, Qatari and UAE developers signed billions of dollars of development deals in the Maghreb states, especially Morocco and Tunisia.

But implementation was slow: red tape hindered the projects, the global financial crisis turned into a real estate crash across the Gulf, and now political uncertainty and revolution have dimmed an appetite for risk.

Some projects are going ahead, however.

Dubai's Jumeirah Group has said it plans to open a resort complex in Marrakech in 2013-14. Post-Gaddafi Libya is also set to become a new investment frontier, as it seeks to revive crude export levels and launch a series of infrastructure improvement projects.

Qatar, the rebels' biggest backer, is set to benefit most from the projects after its steadfast support for the provisional government via logistical and financial aid. Another ally was the UAE.

The National Transitional Council, which based its external operations in Doha, says its provisional authority hopes to tap the expertise of its allies in infrastructure development and construction.

This is a strong indication that some of the spoils of victory will be shared with the UAE and Qatar.