

The Saudis Slip In Silently

There is no record that the United States or others even tried to use the WTO negotiators to loosen the OPEC cartel's stronghold on oil.

By Jeffrey E. Garten
Newsweek International

Nov. 28, 2005 issue - The big news is often in the silence. That was certainly true in the case of Saudi Arabia's quiet entry into the World Trade Organization. Last week trade ambassadors in Geneva blessed the move, which will be made official at the upcoming summit in Hong Kong. It's been a long haul—Riyadh has been knocking at the WTO's door since 1993—which hints at lengthy and difficult behind-the-scenes negotiations.

Yet there have been few headlines and little public debate about the linkup between the world's most important multilateral organization and a country that possesses 25 percent of the global oil reserves, greatly influences the price of the Earth's most important natural resource and affects the trade balance of virtually every country. Could it be that trade negotiators tried to bury serious flaws in this process? It sure looks that way. At the least, some big issues should have received more attention by the U.S. Congress and others.

The comparison with China says it all. Beijing's accession to the WTO in 2000 was preceded by at least a year of international hand-wringing about the commitments China would formally undertake to open its economy, and came with an agreement that its progress would be monitored by the WTO and key governments. Reflecting the huge stakes, Congress demanded to approve the deal cut by the White House. In fact, the West used the allure of WTO membership as leverage to open up the Middle Kingdom more broadly than any previous candidate, and certainly more than Beijing originally bargained for. All this was done in full public view, making it harder for China to later renege on its obligations.

But there was no such high-profile activity in the case of Saudi Arabia. Hardly a peep was heard from Congress, for example. And the result is unambiguously disappointing. While Saudi Arabia has made market-opening concessions in manufacturing, agriculture, insurance and telecommunications, more than 90 percent of its exports are in the petroleum sector. And here it is hard to discern any softening in the kingdom's longtime prohibition against foreign participation in oil exploration and production.

When it comes to accounting transparency—a critical feature of any market-oriented economy—Saudi Arabia gets a flunking grade. One of the great mysteries of the world economy is how much oil the kingdom has in the ground and how hard it will be to get it out. The International Energy Agency recently pointed out that the answers will help determine future oil prices and everything associated with them, including economic growth rates all over the world. Yet a fierce debate between outside experts rages today over Saudi Arabia's actual petroleum reserves, creating uncertainty that helps drive prices up. What's the problem? Saudi Aramco—the monopoly state oil company that is larger than Exxon, BP, Chevron and Total combined—refuses to allow a third-party audit of its reserves, in contrast to Shell

and all the other publicly traded oil companies. Nothing about its upcoming membership in the WTO will compel Saudi Arabia to change its secretive policy.

Saudi Arabia is also the linchpin of the world's most important cartel—OPEC. Whether you think this club of oil exporters has been a force for price moderation or for gouging consumer nations, there is no doubt that OPEC's mission is to allocate export quotas among its members and thereby control prices. Such behavior would be considered an illegal conspiracy within the United States or Europe. In the past, Washington has at least tried to use its antitrust policies to break up cartels in such areas as vitamins, uranium and glass.

But the U.S. and other governments have given OPEC a free pass on its anticompetitive behavior for decades, and there is no record that they even tried to use the WTO negotiations to loosen the cartel's stranglehold. This is hardly for a lack of opportunity to talk: As a precondition to membership Saudi Arabia has had to negotiate bilateral deals with nearly 40 governments, including those in Brussels and Washington.

The United States and the EU didn't have to take a sledgehammer to Riyadh before granting it WTO membership. Given that Saudi Arabia is in the middle of a political earthquake zone, I can understand why too much pressure to change its economic structure right now could have been ill advised. But Washington and Brussels could have demanded liberalizing economic changes that would unfold over the long term, thereby laying down markers to which they could eventually return, and giving all WTO members the political cover to keep pressing Saudi Arabia to open up its system. Instead they chickened out and made a mockery of their professed support for an increasingly open world economy. No wonder they kept the talks below the radar screen.

Garten is the Juan Trippe Professor at the Yale School of Management. He can be contacted at jeffrey.garten@yale.edu.

© 2005 Newsweek, Inc.